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ABSTRACT

Seven papers look at lessons from the franchising experience in further education (FE) in Britain. "Franchising--A Case Study in FE Funding" (Mick Fletcher) looks at franchised provision in the light of universal themes that cut across all of FE: funding tariff, employer contributions, and local priorities. "The Case for Collaborative Provision" (Jan Dominey) outlines benefits of franchising to principal stakeholders, refutes common criticisms, and gives examples of the types of innovative provision franchising has allowed. "The Rise and Fall of Franchising" (Brian Styles) emphasizes the distorting effects of franchising on the sector and its impact on non-franchised provision. "Community-Based Collaborative Provision" (Maggie Gidney) underlines the variety of forms franchising has taken, which, in turn, explains why there is no easy regulatory solution to the difficulties raised. "Franchising and Core Provision" (Birmingham University School of Education) presents research findings on the impact of the funding methodology used in FE since incorporation. "The Selling of FE Lite, How We Spend a Bundle of Cash without Increasing Opportunities at All" (Adrian Perry), discusses the following six major problems with franchise work as presently constituted: (1) it diverted funds and attention from mainstream work; (2) it sprang up undiscussed and unplanned; (3) it used funds that could have been better used elsewhere; (4) it paid for training that would have been occurring anyway, or that was not meant to be funded as FE; (5) it distorts comparisons of growth and costs; and (6) it works against local and regional planning for educational capacity. "Update" (Mick Fletcher) is a summary of changes introduced in 1999. (Contains 21 references and list of acronyms.) (YLB)

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Foreword

Chris Hughes, Chief Executive, FEDA

The debate about franchising has been an important and instructive one for further education. It has aroused a great deal of interest in the Department for Education and Employment (DfEE), the Further Education Funding Council (FEFC) and other national stakeholders, not to mention colleges themselves. At times it has threatened to generate more heat than light as protagonists have variously hailed franchising as the new way forward for the sector, and as a serious distortion of educational priorities.

Towards the end of 1998 FEDA decided that there was a need to bring together a balanced account of the arguments. We commissioned contributions from a cross-section of opinion in the sector; from the FE21 group, which represented most of the major franchising colleges, and two inner city principals known for having expressed serious reservations. With the advantage of hindsight we can claim to have got the balance about right. Taken together, the articles form a convincing record of the arguments that led to the new framework of regulations.

In a brief concluding chapter Mick Fletcher updates the collection with a summary of the most recent FEFC circulars, relating the new restrictions to the themes raised by our contributors. As he says this account is of more than historical interest. The new Learning and Skills Council, proposed in the White Paper *Learning to succeed*, will need to strike a balance between national regulation and local responsiveness; between the dynamism of the market and the responsibility which must be attached to public services. The experience of franchising in further education is a case study in walking this difficult tightrope. It is one from which all concerned with learning and skills need to learn.

1. Franchising – a case study in FE funding

Mick Fletcher

Introduction

Franchising, or outward collaborative provision as it was once known, is a subject which arouses strong passion. There are those in further education who see much of the rapid development of franchised provision as little better than a scam. Equally, there are those who see it as the first radical step towards irreversible changes in the way we deliver learning. This one aspect of the large and complex world of further education occupied much of the time of the Education and Employment Committee. It was a cause of concern to the Public Accounts Committee (PAC), and the Further Education Funding Council (FEFC) itself has had great difficulty in framing policy capable of handling the technical complexity and political sensitivity of the issue.

If you start from a simple definition of franchising it is difficult to see what all the fuss is about. At its simplest franchising is just one mode of delivery of further education. It involves a college contracting with a third party to deliver education away from college premises. The third party, which might be an employer, a community organisation or a private training provider, operates under the direction of the college which has full responsibility for the quality of the programme.

However, if you start by looking at the explosive growth of franchising during the past few years it is all too easy to see why eyebrows have been raised. Between 1994–95 and 1996–97 the proportion of FEFC students enrolled on franchised courses grew from 5% to 19%. During the same period the number of funding units accounted for by franchised programmes rose from three million to 17 million. As Jan Dominey points out in Chapter 2, franchised provision accounted for the overwhelming majority of the additional student numbers enrolled between 1993 and 1998 – perhaps 80% of the total growth. Misgivings in some quarters may also have been prompted by the fact that this growth was concentrated in only a small number of colleges. Quoting again from the evidence provided to the Select Committee, a small group of 20 colleges provided more than half of the total number of franchised units.

This collection of papers from practitioners attempts to paint a balanced picture of the franchising debate. There is a need to cut through the suspicion and the self-justification which shroud arguments on franchising and to identify its impact on the sector to date and its proper role in the future. This is particularly important given that the debate has recently entered the political arena. Items taken out of context reflect not just on franchising but on the sector itself. The report will identify any general lessons that can be learned from the franchising issue. It will also look for any more general messages about the way in which independent institutions behave under market conditions.

In the first paper, Jan Dominey writes on behalf of the FE21 group, a voluntary group of those colleges most heavily involved in franchised work. Her paper outlines the benefits of franchising to the principal stakeholders – the Government and students – and seeks to refute some of the more common criticisms. She gives examples of the types of innovative provision which franchising has allowed.

Brian Styles from the City of Bristol College is one of the non-franchising principals who crossed swords with the FE21 group before the Select Committee. His paper in Chapter 3 emphasises the distorting effects of franchising on the sector and its impact on non-franchised provision. He foresees continuing difficulty for the FEFC and for colleges as franchised provision is brought under stricter control.

In Chapter 4 Maggie Gidney writes about community-based franchising. Most franchising has involved private training providers but a significant minority, about one-quarter of the total, has been delivered by voluntary organisations or local authority services. The aims and impact of this type of provision differ significantly from employer-based work. This focus on community-based franchising helps to underline the variety of forms franchising has taken which in turn helps to explain why there is no easy regulatory solution to the difficulties which have been raised.

Birmingham University School of Education was specially commissioned by FEDA to research the impact of the funding methodology used in further education since incorporation. The team rapidly identified franchising as a key element in recent funding practice. In Chapter 5, it offers a perspective from outside further education.

To set the scene, this chapter looks at franchised provision in the light of universal themes which cut across all of further education. Franchising is too complex and dynamic to be judged as a whole. However, there are:

- Aspects that are unexceptional and aspects that appear to need reform
- Elements that were originally poorly regulated, but which are now under clearer control
- Features of franchising that have changed the way the sector works
- Features that will soon be forgotten.

One of the most worrying aspects of franchising – its unexpected and explosive growth – may be seen as a product of particular circumstances which are unlikely to occur again.

Key principles

Funding tariff

Many of those who express concern about franchising argue that its substantial expansion came about mainly because it was too generously priced in the FE funding tariff. Colleges were able to claim considerably more from the FEFC than they paid to third-party providers. While some of the difference was legitimately accounted for by quality control arrangements and start-up costs much of it was used to subsidise other college activities. Colleges which expanded in this way were able to reduce their unit costs. Since this was one of the factors taken into account by the FEFC when determining growth bids, these colleges were able to pre-empt yet more of the growth funding allocated to the sector. It is this argument that leads to accusations that franchising caused distortion, both of the mission of individual institutions and of sector priorities.

The aim here is not to judge college behaviour. Too much has been made of whether colleges were wrong to respond to the incentives placed before them (or 'culpable' for not responding, as one witness expressed it to the Select Committee). The concern is simply with whether the tariff, in general, was too high.

There are several sources of evidence which suggest that there have at times been substantial differences between what the Council pays and the costs colleges have incurred. This is not to say that franchising has been profitable at all times and in all circumstances. Unwise and badly planned ventures into franchising could certainly have cost colleges money rather than generated surplus. Others may have subsidised provision or at best broken even in the first years expanding at the marginal demand-led element (DLE) rate of £6·50 per unit, because they correctly anticipated that their franchising activity would later be consolidated at a much higher level of funding. However, overall one piece of evidence that the tariff was misaligned is the fact that colleges often found it possible to initiate and expand franchising substantially at a rate significantly below that which they subsequently earned. The point was taken by the Select Committee enquiry and those principals questioned accepted that after initial investment franchised work yielded a surplus.

Such surpluses were reinvested to support the education and training of other students. Not even the strongest opponents of franchising developments suggested that the surpluses were in any way misappropriated; simply that they enabled some colleges to invest at a time when others could not. However, the franchising developments may have weakened the traditional expectation of employers that they should pay fees for part-time further education. This would then reduce overall income to the sector.

Clearer evidence on the question emerges from a study commissioned by the FEFC from consultants KPMG. This compared the costs of funding qualification aims by direct provision and franchising. Both the complexity of the issue and the weakness of college costing systems made the task difficult, but the report confirmed what many suspected and conceded in private, namely that provision from employers and that delivered by private training providers (the great bulk of franchise arrangements) is systematically cheaper than the equivalent provision delivered directly in colleges. In the light of this, the FEFC needed to act. The principle behind the current methodology and the workings of the tariff advisory committee is that funding should be related to the average cost of provision. Since this paper was written the FEFC has taken firm action to limit and control funding. See summary in Chapter 7. The whole logic of unit calculations and cost weighting factors is predicated on the need to reflect costs; the objective is that the funding regime should not unintentionally favour one type, subject or mode of provision over another.

This logic is much misunderstood in the sector and not only in the context of franchising. Many argue simplistically that to reflect costs in the tariff represents a return to the bad old days, when institutions were funded on the basis of the costs they incurred not the output they produced. The tariff does not reflect whatever costs a college chooses to incur; it reflects the average cost at a given time of producing specified outputs. If the production function changes as happens periodically the tariff is revised appropriately.

A further version of this argument is that it is unfair to colleges to adjust the tariff downwards if they find more efficient ways of operating. It is claimed that this reduces the incentive to innovate. This misses the essence of the tariff mechanism. It is always to the advantage of individual colleges to find more efficient ways of operating than the average. In this way they will gain a temporary advantage until the innovation becomes the norm as other colleges follow suit. When this happens it is right for the funding to reduce and the system at large to gain a permanent benefit. It is right for two reasons. In principle it is difficult to justify a greater expenditure from public funds than is required to achieve a stated objective. More pragmatically, to allow funding to stay at the higher level distorts the incentives given to institutions and thereby their actions. There is a strong case that in part this is what happened with franchising.

Employer contributions

There is a second issue of principle tangled up in the franchising debate. This concerns the balance of contributions between individuals, employers and the State in respect of vocational education and training. It is a much larger issue than franchising and has been around much longer. However, the new franchise arrangements bring it out in different ways. As with the tariff question it subdivides into issues of principle and issues of pragmatics. The principle concerns what is the proper role of State funding; the pragmatic aspect concerns what has come to be called 'dead weight', a worry that increased public investment in an area might cause individuals or employers to decide that they do not need to make a contribution anymore.

In the public debate much has been made of the possibility of substitution or 'dead weight'. The Select Committee probed extensively into the arrangements between major franchising colleges and large national organisations. The key question is to identify what additional benefit is purchased through the use of the FEFC money or what might have happened in its absence. The additional benefit, argued the franchising colleges, was the fact that individuals were assessed to national vocational qualification (NVQ) standards and achieved a nationally recognised qualification rather than an internal company certificate.

The Government agenda, as set out in the Green Paper *The learning age*, envisages individuals and employers taking increased responsibility for funding education and training. It is this strategy, as well as specific concerns raised by franchising examples, which underlay the Secretary of State's request that the FEFC increased the fees paid by employers for dedicated provision. Where dedicated provision is delivered either by direct or collaborative provision, the Council now assumes the employer will pay a tuition fee of 50% rather than the 25% applied in previous years. This reduces by one-third the tariff units which may be claimed by such provision.

There is a logic to extending this arrangement to all off-site employer-based provision and specifically that involving private training providers. The majority of franchise work is with private training providers most of whom are providing courses for employers.

A major complication which franchising has highlighted is the difficulty of assessing the extent of an employer's contribution in kind. Employers have to meet the premises and equipment costs of provision on their site since Council funding for the hire of such services should only be made in 'exceptional' cases. Employers also contribute staff and management time to an extent that is difficult to identify or enumerate. The very variability of this contribution and the difficulty of separating out 'dead weight' is at the root of much of the complexity surrounding franchising. It is reflected in the variety of rates which different colleges pay to their franchisees which in turn makes it difficult to set a standard tariff without risking seriously underfunding some provision and providing excessively in other cases.

Local priorities

A third major area of principle which is brought into particularly sharp focus by franchising is the local priorities policy. The FEFC has reflected changed political priorities by giving greater emphasis to regional and local planning. This is consistent with wider Government moves towards regionalisation, a closer working relationship with local authorities, particularly in respect of 16–19 provision, and the changing focus signalled by moves from the competitiveness fund to the collaboration fund. The very high priority given by the Government to widening participation and combating social exclusion requires a locality-by-locality focus on provision.

Many of the more dramatic examples of franchising are in tension with this policy. Around one-third of franchise work takes place outside the region in which its college is located. From the new Government perspective this raises two concerns:

- Is a college which is making provision outside its region doing so at the expense of its local community?
- Is the provision being made by a distant college compatible with local priorities and plans?

This debate in part mirrors a long-running tension in further education. Many colleges have combined a role serving their local community with a national or at least regional specialism and questions such as those above could have been asked about a number of institutions and areas of provision during the last 30 years (and often were). One difference is the speed and scale of franchise developments. In respect of colleges which are major franchisers, this now represents a substantial proportion of their work. From the viewpoint of local communities there has equally been a huge increase in the number of publicly-funded FE providers operating in an area. Unlike the previous pattern of regional specialism which grew slowly following open debate through regional advisory councils and other networks, much franchising work has been undeclared. Its mediation through third parties has served to obscure involvement so that it has, for example, no longer been possible to say how many colleges are offering provision in any given area. A minimum reform, and one that is badly needed, is to identify which colleges are offering what provision where.

It is important to note that the dramatic growth in franchising occurred just before a significant change in the dominant political paradigm in the UK. The growth was initiated and pursued with vigour in a climate where the emphasis was on entrepreneurialism, institutional freedom and an encouragement to grow without too much concern about the nature of that growth. Its subsequent investigation by the Select Committee and PAC has taken place in a political climate which is re-emphasising planning and has at least as much concern with the nature of what is provided as its quantity. The distinction made by this Government between widening participation and growth encapsulates some of the changed thinking. The move to integrate franchise arrangements with local planning and the local priorities policy derives specifically from this changed political emphasis.

Conclusions

The particular circumstances which gave rise to the rapid growth of franchising are over and unlikely to recur in exactly the same form. Franchising is likely to continue but at a lower level and it will be better integrated into the planning and quality control mechanisms of the sector. There appear to be three general lessons which can be learned from this experience.

The most rapid growth in franchising occurred at the time when the market-driven approach to managing the FE sector was at its peak. Although colleges were under considerable pressure both to reduce costs and to grow, the mid-1990s was perhaps the time when the sector was subject to the least central direction in terms of what it was required to produce or how it was expected to go about this. These circumstances produced a high degree of dynamism but also a degree of unpredictability which was expressed most dramatically within franchising. A move towards greater central control will reduce the number of surprises but will also reduce the capacity of the system to innovate.

A second general message concerns the speed with which the regulatory body needs to act in a highly dynamic environment. In this instance the FEFC seemed slow to recognise the scale of changes and slow to organise a response. In so far as the rapid growth of franchising represented a response to unintended generosity in the tariff, it required a rapid response from the Council. However, the pressure from colleges has constrained the Council, causing its reaction to be slow. Colleges have sought to ensure that the FEFC cannot act without prior consultation, has to model carefully the possible impact of changes and, as the fundamental review group argues, should give 12 months' notice of changes where possible. This more considered approach to change may be appropriate in the current more tightly managed circumstances. However, if the sector returns to the more entrepreneurial market-driven model, these represent unacceptable constraints on the regulator.

The final lesson to be learned from the franchising experience is that it shows the strength yet at the same time the limitations of financial incentives as a driver for change. In a limited number of institutions the financial incentives to develop franchising produced a powerful response sufficient to affect the character of the entire sector. This illustrates the potential of financial incentives to stimulate a strong response. Yet at the same time the majority of institutions in the sector either did not get involved or only did so to a limited extent. Financial incentives alone, although important, are in themselves not a sufficient condition for effective change.

2. The case for collaborative provision

Jan Dominey

By now, franchising ought to have a fairly respectable pedigree. Also known as outward/off-site collaborative provision (OCP/CP), it has been strictly controlled since 1996, and a number of different bodies have reviewed the provision and agreed that it is sound, either in principle or in practice, or both. For example:

- In summer 1997 a Department for Education and Employment (DfEE) working group concluded that franchising should not be banned or subject to rigid controls.
- The FEFC Inspectorate reported in 1998 that there are 'no inherent weaknesses' in this type of provision (FEFC, 1998).
- The Kennedy report *Learning works* (FEFC, 1997a) stated that 'we are clear that the use of public funds for franchising ... opens up new opportunities for learning and learners'. Despite initial scepticism, Baroness Kennedy told the Education and Employment Committee that:

> *Franchising is enormously beneficial for ... widening participation. [There are] a lot of projects out in the communities which will be provided by further education in outreach or by franchising. I think that this is a very fruitful way of going forward on a widening participation campaign.*
> Report of the Select Committee on Education and Employment.

- The Association of Colleges (AoC) told the Select Committee that 'many of the innovative franchising schemes have proven very, very beneficial to our core business'. (Report of the Select Committee on Education and Employment.)
- The Select Committee's report on further education concluded in 1998: 'High-quality franchising can play a valuable role in the FE system'. Despite this support, even the concept of franchising appears to remain controversial. This chapter intends to show that:
    - When principals and corporations balance the requirements of the two main stakeholders (the students as the main beneficiaries and the Government which determines the policies and meets the costs) then good quality, value-added franchise partnerships provide a perfect win–win solution
    - Many concerns about franchising are difficult to justify when you focus on FE provision from the standpoint of the two main stakeholders
    - Franchising is exactly the type of bottom-up, demand-led initiative which the Government and the FEFC should be encouraging if they are serious about attracting the targeted extra 700 000 students into further education by 2002.

Perfect win–win solution

Around 20% of the students in further education (approximately 750 000 learners) are now enrolled through franchised programmes. Franchised provision accounts for the majority (perhaps 80%) of the additional student numbers enrolled between 1993 and 1998.

OCP is provision where the FE college contracts the delivery of training to an external provider (such as a training provider or a voluntary group), to take place away from college premises (for example, in the workplace or in a community centre). In such a case, the college retains full responsibility for the student and quality of the programme, and must meet rigorous guidelines set out by the FEFC in 1996 (FEFC circulars 96/06 and 96/32) and augmented on numerous occasions since then. The latest position is set out in Circular 99/37, which summarises all regulations to date. These guidelines are far more demanding than those applied to traditional provision. Programmes are subject to both annual audit and periodic inspection by the FEFC. The college will usually make a payment to the external provider, often based on a set amount per FEFC-funded unit achieved through the contract.

Franchised programmes are not substantially different from the traditional core business of FE colleges. As with the core business, they cover:

- Non-advanced post-16 education and training
- Vocational, general and key skills programmes which are accredited and quality assured
- Provision which often offers open access
- Flexibility, offering choice over the time, place and mode of delivery
- A partnership approach
- Local, regional and occasionally national markets.

The differences are sometimes elusive. For example, does a programme delivered by a lecturer from the agency Education Lecturing Services (ELS) in an employer-based learning centre constitute OCP, given that it is clearly off site and based on collaboration, or is it (as one college saw it) simply an extension of their well-established outreach programme?

FEFC statistics based on the 1995/96 individualised student record (ISR) show that the greatest proportion of collaboration (54% nationally) has been through training providers, who in turn have extensive networks with small- and medium-sized enterprises (SMEs). Many programmes have also been established with voluntary organisations (18%), employers (13%) and public sector/local authority organisations (13%), with 'other' accounting for 2%. Colleges that have been working with collaborative partnerships for several years have now developed highly-differentiated strategies to make best use of the partnership approach. For example:

- Nationally, 800 learners each year achieve NVQs at Levels 2, 3 and 4 through Swindon College's collaboration with the Nationwide Building Society
- South East Essex College has used FEFC funding in partnerships with local training providers to widen access to training, particularly for unemployed adults
- Barnsley College and the Security Industry Training Organisation (SITO) have jointly developed national standards for security guard training, through which 17 000 security guards gained qualifications in 1998
- Handsworth College has used the community links of its ethnic minority staff to develop a network of community partnerships – often through churches and mosques, both in Birmingham and in other towns and cities – which has enrolled almost 30 000 students.

Critics have argued that initially this provision was opportunistic. However, even they find it difficult to deny that increasingly partnerships have matured in a genuine spirit of collaboration, resulting in improved systems, investment in infrastructure and the development of coherent progression routes.

Benefits of franchising to students

In his recent article on the University for Industry (UfI), David Robertson lists 'factors which impede ... the propensity to learn' (1998). These include:

- Shift work and interrupted career patterns
- Competing work and domestic commitments
- Unwelcome and inappropriate course content and pedagogic experience
- Health and travel difficulties
- Funding constraints
- Lack of peer support.

Similar factors were identified by the authors of a recent FEDA report (Martinez, 1998) on student retention. They observed that:

> *Students continually weigh the costs and benefits of completion and this process starts even before they enrol ... If the scales tip too far towards the costs, they will withdraw* Quoted in *The TES*, 1998

Because many potential students perceive the costs as far outweighing the benefits they do not even get as far as enrolment. This is particularly true of older people in social classes 4 and 5, working in unskilled and semi-skilled jobs or in SMEs. These people are also likely to receive, on average, not more than one-third of the training at work which is available to their better-educated, middle-class peers in larger companies or non-manual occupations (see Robertson, 1998).

MORI's *Attitudes to learning 98* survey (Campaign for Learning, 1998) states:

> *Most of the learning that people actually undertake is related to their current or possible future jobs, rather than their personal interests. This may be due to the fact that employers and work colleagues are the strongest influences on people's decisions to start learning. It may also reflect the tremendous importance of learning at work for most people.*

The survey asked individuals to list the key influences in their learning. It found that the top influence to prompt someone to start learning was the employer (34%), followed by friends (25%). MORI also found that the majority of adults (56%) agreed that training during paid work hours is most likely to improve performance at work, followed by 'your own trial and error' (48%) and 'informal advice/tips on how to do your job from your line manager/workmates' (46%). A total of 69% of adults agreed that they would find time to use a workplace learning centre or resources room 'if it would help me to do my job better'. Adults feel they learn most in the home (57%), at work (43%) or in libraries (36%).

The most interesting thing about this research for those working in the FE sector is that colleges simply do not figure in this overview of adults' learning preferences, either as an influence to start learning, or as a preferred provider of learning opportunities. However good the service the sector is providing to those already converted to education, if colleges are not acting in partnership with employers, community groups and training providers, they will not appear in the learning picture for the vast majority of the population who are non-converts.

Table 1 summarises the key differences between OCP students and those enrolled through direct provision, as identified in FEFC statistics (*Franchising: background information*, July 1997, unpublished paper presented to the fundamental review group seminar). Off-site collaborative provision is more likely to be taken up by:

- Older low-skilled and/or unqualified learners
- Part-time students
- Those who have never crossed the threshold of a college and who traditionally receive little training in their work.

Table 1. Differences between collaborative and direct provision

Feature	Collaborative (%)	Direct (%)
Part-time attendance (students)	94	76
Female students	49	58
Students older than 25 years	77	58
Qualifications in Health and Community Care	31	9
Non-NVQs at Entry and Level 1	73	30
Non-NVQs at Level 3	11	40

Many OCP students achieve new skills and qualifications for the first time since leaving school. The following are a few typical students who have enrolled through collaborative provision in colleges which are part of the voluntary FE21 group, set up by a number of colleges to develop understanding of franchising:

- Gerald is a mechanic who can't afford time away from his small specialist business: he takes his tuition online through distance learning with Newham College, with the support of a telephone helpline. Having 'caught the learning bug second time round' he is now encouraging his employees to do the same.

- Dave enrolled on basic skills tuition via a Pathways project planned in collaboration between West Cheshire College and his employer, Vauxhall; he has now completed numeracy qualifications to Level 3 and a supervisory qualification. As a result he has been promoted to first-line management.
- Pam is retired but is studying Computer Literacy and Information Technology (CLAIT) with another college, at the learning centre of her former employer. This is her first accredited course since leaving school and she is doing it purely for her personal satisfaction.
- Sarah is a care assistant in a nursing home and the mother of two young children. Her first experience of education since leaving school was the first aid certificate she took through a short course organised through a collaborative partnership between a college and a local training provider with specialist links in the care sector. She has since taken a Basic Food Hygiene certificate and now has the confidence to start an NVQ Level 2.

Looking again at Robertson's list of impediments (1998) detailed in Table 2, it is easy to see why collaborative programmes are so much more successful at attracting these students.

Students' motivation to achieve is higher not only because many of the demotivators have been eliminated, but also because the provision exhibits the positive features identified by MORI (Campaign for Learning, 1998): using the beneficial influence of employers, workmates and other peers and providing an opportunity to use practical learning experiences.

Costs of franchising for the Government

Collaborative partnerships widen participation. They also help the Government to raise achievement levels and promote lifelong learning. They attract large numbers of students back to learning for the first time, by providing local, accessible, tailor-made training and education, usually with strong peer group support. Much of this provision differs very little from more traditional outreach programmes, adult education or employer-based training (depending on the type of partnership): the controversial aspects of the provision are more to do with its funding and management and whether it is a valid way to spend public funding.

The scale of the Government's problem with training is universally acknowledged. Robertson (1998) writes of the:

> *legacy of massive underqualification amongst older workers ... a hangover from the consequences of social exclusion which have characterised structural arrangements of the UK education system for generations.*

Table 2. Factors which impede learning

Potential impediment	Collaborative provision feature that has overcome this barrier
Shift work and interrupted career patterns	Programmes often allow students to enrol on short courses, drop in and out of learning and use resource-based learning that fits around working hours
Competing work and domestic commitments	Programmes tend to be community or workplace based; individually tailored programmes are time-effective, obviating the need for students to waste time on travel, unnecessary 'lessons' and administration
Unwelcome and inappropriate course content and pedagogic experience	The learning is often customised and integrated with the job or with a meaningful community project so that the purpose and the progression routes are clear
Health and travel difficulties	Transport and access barriers often eliminated
Funding constraints	Tailor-made programmes are cost-effective for the student and often lever employer or other support
Lack of peer support	Students usually have the reassurance of training with their workmates or other peer groups; peer group pressure operates in a beneficial way

The learning age Green Paper states the problem succinctly:

> *Our weakness lies in our performance in basic and intermediate skills. Almost 30% of young people fail to reach NVQ Level 2 by the age of 19. Seven million adults have no formal qualifications at all; 21 million adults have not reached Level 3 (equivalent to two A-levels), and more than one in five of all adults have poor literacy and numeracy skills … We lag behind France, Germany, the USA and Singapore in the proportion of our workforce*

> *qualified to Level 3. In the case of graduates, even though we have a high number, we need to encourage more of our highly qualified people to update their skills through continuing professional development.*
> DfEE, 1998b

As shown above, the 750 000 students enrolled through collaborative programmes are exactly the group the Government has identified for widening participation initiatives. This cohort represents the majority of the recent growth in student numbers in the FE sector, which exceeded the target of 25% within three years set by the previous Government in 1993. The number of FEFC-funded students rose from about 940 000 full-time equivalents (FTEs) in 1992–93 to 1·25 million by 1996–97.

Growth was stimulated by the introduction of the demand-led element (DLE) of funding: a mechanism whereby colleges which had met their funding target could draw down an unlimited amount of extra funding units at the much lower unit price of £6·50.

The success of this mechanism made a major contribution to the reduction of unit costs in further education by at least 15% between 1993–94 and 1996–97. However, it also resulted in the DLE crisis of early 1997, when the Government, alarmed at the cost of this success, placed a cap on growth. Despite continuing demand for growth, actual FE enrolments were not allowed to expand substantially again until 1999, the first year of growth towards the Government's new target of 700 000 additional students in further education by 2002.

It is extremely difficult for colleges to hit their targets exactly. If they attempt to do so they tend to underachieve. The demand-led element rewarded them for overshooting by allowing them to draw down funding for the additional students but at marginal cost. When colleges responded to this opportunity by developing the first franchised programmes, the financial benefits for the colleges were clear:

- Costs were controllable through the terms of the contract
- Training providers often had lower staffing costs and other overheads
- The programmes made use of provider resources (including specialist equipment) and so did not require a long-term commitment from the college in terms of staffing, equipment and accommodation.

This last point is crucial: capital investment is a critical issue for colleges. An FEFC-sponsored survey at incorporation showed that an investment of £839 million was required in the first five years to make up for the lack of investment during the 1980s. Until 1995, the FEFC was able to allocate a proportion of this funding but for more than three years since then capital allocations have been cut back and the promised private sector funding has not even begun to fill the gap. Through collaborative partnerships some colleges have been able to make creative arrangements to access alternative accommodation and equipment, which allows them growth in student numbers without straining scarce resources.

Collaborative provision also makes good financial sense for the Government. It has now been accepted (for example, by the Education and Employment Committee) that the FE sector is more cost-effective than either training and enterprise councils (TECs) or schools and the gap is widening. Accountability in the sector is high with much information publicly available and few instances of misuse of funding. Inspection evidence also shows that colleges overwhelmingly deliver high-quality learning – better than schools – although TEC provision is only just beginning to be subject to inspection. When collaborative provision was inspected separately in further education, in 57% of lessons observed the strengths clearly outweighed weaknesses. The FE sector as a whole provides excellent value for money.

Within FE provision, collaborative programmes represent particularly good value for public money. This can be illustrated by taking the example of a student studying for a qualification equivalent to an NVQ at Level 3. Cost to the public purse can vary widely:

- For a TEC-funded modern apprentice, payments to the employer alone could amount to £4860 during three years (DfEE, 1998c, p96).
- A student enrolled on to a full-time mainstream programme in a college would be funded at a minimum of £1620 at the level of funding per unit chosen for convergence (£16·20).
- Funding for a similar student on a collaborative programme is limited to 42 funding units (maximum funding of £680·40); under the DLE mechanism, some colleges were providing certain programmes at £6·50 per unit (maximum funding of £273 for the same outcome).

In practice, the funding could be even lower, since it is based on a calculation of guided learning hours: this applies particularly to experienced employed people who need relatively few hours of guided learning.

The provision is cost-effective because it is generally taking a contribution from the partner organisation and also from the student – in terms of time, accommodation and access to equipment – rather than depending solely on the college's resources. In making these resources available at no cost to the public purse, it offers all the benefits envisaged by the Private Finance Initiative (PFI), yet through a different route.

In terms of meeting targets for qualifying the UK workforce to national standards, the collaborative partnership route has to be an extremely attractive option. It is also close to the Government's vision for the UfI.

Concerns about franchising

Payments to employers

One controversial area surrounding franchising is the question of who should pay for the training. Payments to employers for their in-house training have been banned by the FEFC, despite the report from the Joint Working Group on Franchising, which has stated that there is a case in principle for public funding for employer-based training. The Joint Working Group's view was no surprise: such use of public funding has traditionally been regarded as perfectly normal and acceptable, most notably on day-release provision – and not just for the 16–19 age group. For example, 30 years ago one FE21 group principal taught classes for bus inspectors, who were mainly middle-aged, which took place either on the employer's premises or on residential programmes:

> *The students never crossed the threshold of the college; much of the learning took place on the job and was delivered by the employer's own staff. The circumstances were almost indistinguishable from a present-day franchised programme; the employer even received back far more from the training levy than they put in, because of the volume of training delivered. No-one ever suggested that the students should have been excluded because they did not travel to college premises to attend classes.*
> DfEE, 1998c, Appendix 25, p250 ff

There is still confusion over which employer-provided training should or should not be funded. For example, the Government appears to find it acceptable to make payments to employers for taking on modern apprentices. The arrangements for the New Deal – Welfare to Work – will provide £750 to employers to pay for the day-release element of the trainees' programme. It is difficult to see why this type of funding is different from that made available to employers to assist in the training to nationally accredited standards of, usually, unqualified and low skilled staff through collaborative partnerships.

Added value

All FEFC-funded programmes must provide added value in return for the investment of public funding: it is not appropriate for FEFC funding simply to replace other funding for provision which would have happened anyway. Again, this is an issue mainly with employers who may have been funding training for a group of employees out of their own training budget – a practice which both the Government and the FE sector want to encourage.

However, even if a group of trainees has previously received training through the employer's budget, this does not rule out the development through a collaborative partnership of a different programme of training so long as that offers added value. For example, there is a difference between an uncertificated in-house induction carried out through the employer's budget and a quality-assured NVQ which can help employees to progress in their career and which contributes to the achievement of national targets for education and training (NTETs). The benefit of this qualification for an employee in, for example, the security or care sectors – both of which employ many unqualified people on the margins of social exclusion – should not be underestimated.

The interests of employers cannot always be relied on to coincide with those of their employees, or to match the goals of national policy makers. To take just one example, employers know they need training for their employees but are unlikely to put much effort into helping them to achieve qualifications; they may see qualifications as a distinct disadvantage, since they encourage job mobility. Even those who have Investors in People (IiP) status often prefer to set their own standards rather than expend energy on meeting those set by external bodies, which are counted towards NTETs. In such a case, the college adds value in the partnership by providing assessment and access to transferable qualifications for workers who are often unqualified. Similarly, it is unreasonable to assume that employers will fund training to meet the generic skills deficit among older workers, but colleges can add value by providing key and basic skills training which complements specialist in-house training.

Local planning

Another argument against franchising is that it complicates or undermines local planning. The truth is that much franchised provision is carefully planned, but at sector-wide or national rather than local level, as shown by the examples given earlier – Nationwide Building Society, for example contracting within one college for a national programme. However helpful local planning may be, it is difficult to see why one type of provision (local) should automatically take precedence over another (such as regional or national collaborative programmes) which is of proven success. If the sector is serious about being customer-centred, then it is right to be flexible and to offer partners and students choice over the type of provision.

Not all provision can be planned effectively at a local level. To take the partnership between Barnsley College and SITO as an example. There are it seems only two colleges in the country offering qualifications for security guards, of which Barnsley College is by far the bigger provider. So this provision is not in direct competition with other local provision. It would simply not be viable to offer the qualification on a local basis through colleges up and down the country. In any case, the strength of the partnership comes through the access the SITO has to SME networks and its ability to plan tailor-made accreditation to national standards. This provision is only imaginable through national planning. It parallels the development of specialist centres, a strategy already accepted in the National Health Service (NHS) but relatively limited in further education. As one MP said after seeing an FE21 group presentation earlier this year:

> *This makes perfect sense to me. We don't expect every hospital to have specialist units for every kind of cancer. It is more cost-effective to have regional and national centres so why shouldn't the same thing apply in further education?*

Promoting the concept of local provision, against the needs of partners and students, would be the very opposite of a demand-led approach. Certainly local colleges cannot assume an automatic right to enrol local students where the latter can be better served elsewhere. Colleges that have focused on traditional local provision may feel they have been penalised when they look at the success of the nearby college that has developed collaborative partnerships. Yet national policy never has been primarily about being fair to college managers and staff.

Nor do partner organisations and students take kindly to being passed around like parcels and referred back to their local colleges – life would be so much easier for the FE manager if they did. They have strong views on their partner colleges. For example:

> *We (hotel group) have a long-term training plan and therefore prefer to work long term with a provider that can supply nationally a full range of courses on site. This year there are 140 students over 22 sites.*
> Employer, quoted in Portwood *et al.*, 1998

> *Our community care scheme operates on 50 sites around the country. We needed the college local to our head office to deliver NVQs nationally.*
> Community organisation, quoted in Portwood *et al.*, 1998

The Government's laudable desire to have planning coherence at a local level need not conflict with its intention to create successful non-traditional delivery, such as the UfI, so long as careful consideration is also given to the needs of partners and students, to national and specialist provision and to distance learning.

Traditional provision is better

Some franchising opponents promote the idea that traditional provision is somehow better. For example, they:

- Criticise collaborative programmes for not 'giving students a college experience'
- Raise alarm that policy may encourage traditional provision to be substituted by franchised provision

- Point out that more rigorous quality assurance mechanisms are required for provision at a distance
- Suggest that collaborative programmes may demand a disproportionate allocation of resource to administration, audit and other non-productive work (because it is more difficult to control).

This is a case where the proof of the pudding is in the eating. New learners are being attracted to collaborative programmes. If the quality of the programme is good, value is being added by the investment of public funding and the provision is cost-effective. The learners are staying the course and achieving at the end.

Distortion of funding mechanism

Brian Styles, Principal of City of Bristol College, has made some interesting arguments about the surpluses generated within FE colleges when collaborative provision, initially funded through DLE at £6·50 per unit, was transferred to the colleges' core units and funded at the average level of funding (ALF) (currently £16·20) (DfEE, 1998c; Styles, 1997a). Given that the colleges, if they were at all responsible, would have costed the programmes originally at £6·50, this left any college running a significant proportion of collaborative provision with a surplus which it could contribute to overheads or use to cross-subsidise other provision. The situation was exacerbated when the FEFC early in 1997 had to discontinue any form of DLE – even within a capped pot – transferring all provision into core funding at a stroke. This is neither a problem with the funding methodology nor an argument against franchising *per se*, as Styles himself made clear. It creates an issue relating to fairness to FE colleges, which necessarily should come far lower down in the order of priorities than the interests of students or the Government.

These issues were thoroughly explored by the education sub-committee. One member asked: 'Are you not being negligent ... by not franchising? Could you not access a lot more learners if you did franchise?' One principal replied that he had ruled out franchised provision in his college out of concerns for quality and the risk that 'we would overstretch ourselves in relation to our existing clientele'. He added:

> *In hindsight now, I could kick myself ... The problem now is that there is no breakout because we are capped as well, so we are trapped underneath it ... At that time I did not realise I was going to be a loser. In that sense I am culpable of negligence now.* DfEE, 1998c, p99 ff

This raises issues for the FEFC and the funding methodology. These are currently being addressed (see Chapter 7), with the FEFC considering a differential rate for collaborative programmes. However, there are risks attached to taking this approach too far as set out below.

Currently, the FEFC allocates funding to colleges by unit of activity and cost-weighting factors. Taking broad curriculum areas as a whole and total college activity overall, most college managers seem to agree that it produces a reasonable result. However, the total income stream has to pay for support services, product development, infrastructure and staff development, as well as the more obvious teaching and quality assurance costs. The principal and corporation have a duty to secure the best value for money within their allocation of funds. Inevitably, this means that there will be a great deal of healthy internal cross subsidy; it is not possible to cost programmes exactly, nor would it be desirable to do so. If the FEFC were to attempt to pay for programmes at cost there would be no incentive to college managers to keep those costs down. They would instead be rewarded with extra money for keeping costs as high as possible (a well-known phenomenon in the public sector).

Another danger in trying to cost collaborative programmes too exactly is that they may become marginalised as a low-cost activity, when the right way forward would be to make a massive investment in infrastructure, student support and curriculum development to develop a positive and forward-looking partnership strategy for the 21st century.

At present, collaborative programmes are among the most cost-effective programmes in many colleges (although at least one FE21 group principal who has done some calculations is sure that in his college the most cost-effective programmes are conventional evening classes with large groups). The FEFC should consider moving to a clearer position on what it is paying for. This should be not just the sum of its parts, course by course, student by student, but the synergistic larger vision. Via funding such provision it is also effectively purchasing the whole college strategic plan. This should include the positive role the college plays as an active partner in developing the local, regional and national economy.

Conclusion – value of demand-led initiatives

Franchised programmes expanded rapidly in the FE sector when colleges were set two challenging targets: to achieve 25% growth within three years, accompanied by year-on-year efficiency gains. The scale of the problem was all the greater as there is traditionally a lack of demand for further education. The student population in colleges was relatively static and the growth achieved in the sector through traditional provision during the four-year period from 1993–97 was relatively small. It would have been surprising if colleges had been able to produce dramatic growth in student numbers by continuing to do more of the same. A radically different approach was needed to achieve this growth.

Franchised partnerships provided colleges with the solution. Typically, training providers in effect acted as a marketing arm for the college and were often able to deliver the training at a lower cost. For the first time colleges were able to tap into areas of unmet demand, reaching new groups, particularly SMEs, through these intermediaries. The success was such that after the FEFC had capped growth in the sector, the Association of Colleges (AoC) estimated that an additional 300 000 students at least could have been enrolled in 1997–98 if the funding had been available.

The FE sector is now once again embarking on a period of growth, with a challenging target of 700 000 additional students. The potential for this target to be met through collaborative partnerships is clear; the potential for it to be met through other routes – whether new or traditional – is uncertain. The great advantage to colleges now is that additional funding appears also to be coming through. The disadvantage is that in the present political climate the emphasis on planning, particularly at a local level, may disempower colleges, to the extent that they will be prevented from using the partnership approach to widen participation and achieve the Government's aims.

As noted above, some of the most successful franchised programmes have been those planned at national, sector or company-wide level rather than at the local level. Although in principle such partnerships can continue to be funded provided they meet FEFC's criteria, the latter's proposals for 1999–2000 suggest a clear disincentive – a weighting of 0·67 for provision through non-local partnerships. Colleges wishing to use franchising to widen participation have two choices. One is to find new ways of partnership working which will take account of the new planning structures and priorities. The other is to work with the lower rate of funding for non-local provision, with the attendant risk of further cuts or restrictions if Government policy continues to reinforce the local dimension.

The franchising approach is often a genuine improvement on previous practices in the FE sector, because it is genuinely based on designing provision around demand, bottom-up. It offers lessons for the whole sector, and for the policy makers. Robertson observes that:

> *The terrain is littered with the burned-out remnants of doomed supply-side initiatives ... The problem with failed supply-side initiatives is not that they failed ... The problem lies in the fact that too little seems to have been learned from the failures, and too much reliance continues to be placed on supply-side initiatives rather than demand-led strategies.* 1998

Conversely, it would be a great shame if the lessons were not learned from this successful demand-led strategy. As the MORI report shows (Campaign for Learning, 1998), it is wrong to assume that there is no demand for learning:

people are positive about learning and enjoy it. A massive 90% agreed that learning is 'fairly important' or 'very important' to them personally and 93% of adults said they enjoyed it. What they are less positive about is having to make a journey to an FE college to access learning in a package which, for whatever reason, is not congenial to them. Like the principal quoted above who was concerned that franchising might distract him from meeting the needs of his existing clientele, both FE managers and policy makers will have to look beyond those who are already their clients in the sector. The way to promote genuine lifelong learning will be to meet the needs of that majority of potential learners whom they have not yet enrolled.

3. The rise and fall of franchising

Brian Styles

A review of significant developments affecting FE colleges since their independence from local authority control in 1993 would include a major section on franchising.

The fact that franchising has grown rapidly during the last four years has already been noted in earlier chapters. Franchising has also had a significant impact on the mission and strategy of a number of colleges and attracted considerable publicity, much of it negative. Despite its obvious importance, defining activities covered by franchising is difficult. Generally, the macro distinction is between in-college provision and franchising. The characteristics of the latter are that it is not delivered from college premises and all, or part, of the learning programme is delivered by staff employed by another organisation. It is a form of sub-contracting which covers a continuum from small selected inputs through to complete responsibility for delivery.

Assessing whether franchising is a good or bad development for further education in England is not a concern of this chapter. Instead, the aims are to:

- Understand the reasons for the growth in franchising
- Assess its impact on college behaviour
- Identify the policy issues it raises.

Explaining growth in franchising

A search for the reasons for the exceptional growth in franchising should begin with an analysis of college mission statements. If this policy pull could be identified within these statements it would indicate that growth occurred because colleges wished to move into new curriculum areas and develop new approaches to its delivery. The available evidence seems to give little support to this explanation. In particular, the FEFC special report on collaborative provision (1998) concluded that:

> *Few strategic plans (of colleges) address fully how collaborative work fits with the college mission or how it relates to curriculum planning within the college.*

In the absence of evidence to support the existence of policy pull it is necessary to identify other possible reasons for its attractiveness. The most obvious of these is cost of delivery.

The FEFC's published figures for 1996–97 indicate that the median transfer to collaborative partners was £6·50 and the mean was £8·40. The equivalent mean for in-college provision (excluding franchising) was not available but must have been at least £17·50. Although these figures are unrefined, any statistician offered the two FEFC data sets – average payments to third parties for franchising units (mean £8·40) and average costs for in-college provision (mean £17·50) – would conclude, at any level of significance, that they covered two distinct populations. This may seem a rather technical point from which to begin an analysis of something as potentially emotive as franchising. However, this chapter maintains that the average cost of franchised activity was, and remains, significantly lower than in-college provision and that this is the essential starting point for understanding why franchising has grown and the impact it has had on the funding methodology and the sector's strategic development.

This FEFC data identified franchised provision as being much cheaper to deliver than in-college provision. There are three main factors which could potentially explain that difference: lower costs; additionality; and inconsistencies in the tariff. These will be considered in turn.

Despite the sector's considerable progress in reducing the cost of delivery, particularly staffing costs (via longer teaching hours, eliminating higher grades, introducing instructors, sourcing part-time lecturers from outside), in some curriculum areas colleges still operate at levels above those achieved by private providers. The extent of these cost differentials has narrowed significantly during the last five years and they only explain a small element of the difference in the mean cost between in-college and franchised provision. However, they have inevitably produced a predisposition for colleges to undertake franchising.

As for additionality, most companies and many of the private providers would have gone ahead with the training, or something very similar, whether or not it attracted FEFC funding. This means that partners often seek to maximise the contribution from public funding rather than to ensure that it covers the full cost of the training. The contribution would be used to improve profitability, enhance competitive pricing or increase training budgets. For example, those involved in recreational or introductory diving courses noticed a sharp drop in tuition costs when they were provided via franchise arrangements with colleges and then an increase when they were subsequently excluded from FEFC funding.

As would be expected, the robustness of the FEFC's tariff system has been severely tested by franchising. Colleges tend to offer a wide range of provision and experience the effect of swings and roundabouts as far as the tariff is concerned. Franchised activity is specialist in nature and exploits inconsistencies or weaknesses in the tariff. One-third of the franchised provision is in health and community care (first aid being the largest single area); a large percentage of the rest is in Computer Literacy and Information Technology (CLAIT) and sports qualifications; one-third involves fewer than 20 guided learning hours; the qualifications aim predominately at Entry Level or Level 1 (FEFC, *Franchising: background information*, July 1997). This illustrates that most franchised activity is focused within relatively few curriculum areas and levels.

As was seen in Chapter 1, in response to the Government's requirement to deliver significant growth in further education at declining unit costs, the FEFC constructed an ideal environment to support the rapid development of franchising. Its funding methodology provided the necessary rewards to make franchising attractive.

The FEFC's operating regime up to 1997–98 supported franchising in a number of important respects, as outlined below.

Demand-led element

The introduction of the open-ended demand-led element (DLE) allowed colleges to develop franchising at no risk providing that they managed the collaboration competently and paid the collaborator less than £6·50 per unit – the amount they received for additional units from the FEFC.

Low average level of funding

Until 1997–98 the FEFC funding system was based around the concept of core and funded growth and was driven by a college's average level of funding (ALF). This approach produced a double incentive for franchised activity. A college's ALF (for growth funding purposes) was calculated by dividing FEFC funding (core + bid) by the actual units delivered. The impact of that particular approach is illustrated in Table 3.

If during the year college B contracted for 200 000 franchised units, it would receive additional funding of £1·3 million (200 000 × £6·50 per unit) and its ALF would fall to £12 per unit (£12 million for one million units). This arose because

Table 3. Calculation of ALF

College	A	B
FEFC core funding (£1000s)	12 000	12 000
Core units (1000s)	800	800
ALF	15	15
Franchised units	—	200
Total units	800	1 000
'Actual' or 'allocation' ALF	15	12

when calculating the ALF the methodology took no account of the DLE funding received but it did count the units. In the subsequent funding year college B received a considerably larger additional bid allocation than college A because of its lower ALF. It was able to sell to the FEFC low-cost franchised units at the bid price which was, on average, nearly £10 per unit above the DLE price. The impact of this process on an individual college was illustrated by David Eade, Chief Executive of Barnsley College, at a Network Training seminar on franchising. He reported that his college had been able to cross-subsidise its in-college provision by more than £2 per unit as a result of the surpluses earned on its franchising activities.

The effect described above arose because the FEFC allocation model prior to 1997–98 was based on what could be called an 'allocation' ALF. This was calculated by including in the divisor the units generated in the previous year but only including in the numerator the core funding allocation. This meant that any income received from the DLE funding was excluded. This 'allocation' ALF was always lower than the funded ALF wherever a college had generated DLE income. Since most of the DLE was derived from franchising, colleges with high levels of franchising were likely to have low 'allocation' ALFs and thereby benefited from being placed at the head of the queue for additional funded units in the subsequent allocation round.

Building projects

The percentage that the FEFC contributed to a college's agreed building programme varied directly with its ALF (calculated as illustrated above). This resulted in the FEFC's percentage contribution being significantly higher to colleges with low ALFs.

Performance indicators

There are six college performance indicators published by the FEFC. Most of these were likely to be influenced favourably by a high level of franchising. The indicators are:

- **Achievement of funding target.** When the DLE was operating there was little financial risk in exceeding the contracted units target set by the FEFC providing the extra was delivered at less than £6·50. As a result, colleges engaging in franchising were more likely to meet or exceed their target than those that did not.
- **Enrolment growth.** Again, franchised activity helped colleges show high growth rates, particularly in their part-time provision.
- **Student continuation.** Franchised courses are usually of short duration and biased towards employees and the employed. Because of this, completion rates are likely to be higher than for general in-college provision.
- **Student achievement.** The low guided learning hours and introductory level of most franchised provision ensures that generally achievement percentages are well above the average for in-college provision. The fact that franchisers have a larger percentage of short, low-level courses enhances their overall rates for retention and achievement.
- **Contribution to national training and education targets.** There is no obvious relationship between the percentage of franchised courses and a college's contribution to national training and education targets (NTETs).
- **ALF.** As already discussed, franchising can be used to reduce a college's ALF.

Generous funding arrangements

The foregoing analysis illustrates just how favourable to franchising the FEFC's approach to funding and performance appraisal has been. Such incentives certainly delivered growth as the figures in Table 4 illustrate.

These figures show that 66% of the growth in student numbers in the sector, over the period 1995/96 to 1996/97, was accounted for by collaborative provision. In 1995/96 it was 80%. In terms of funding units the comparative percentages are 41% and 50% respectively. Franchising was clearly a success story driven by very generous funding arrangements.

Table 4. Proportion of collaborative provision

	FEFC student numbers (millions)			FEFC funding units (millions)		
Period	Total	Collaborative provision	%	Total	Collaborative provision	%
1994–95	2·6	0·1	5	146	3	2
1995–96	3·1	0·5	18	163	10	6
1996–97	3·4	0·7	19	173	15	9
1997–98*	3·7	0·7	19	176	13	8

*Provisional

Explaining the uneven take-up

Despite its obvious attraction the incidence of franchising was not evenly distributed across the colleges. FEFC figures for 1997/98 show that 153 colleges planned no franchised activity in that year and a further 52 indicated that less than 2% of their units would be delivered by that means. The average for all colleges was 5·82% with 30 colleges accounting for 69% of all collaborative provision planned. Even within these 30 colleges there were large differences with less than half of them being responsible for nearly 50% of the sector's planned collaborative provision in 1997/98. These figures exclude much intermediate collaboration involving a college seconding employees from an employer or private provider. The provision delivered by these seconded staff is reported as in-college rather than franchised units although most or all of it is carried out on the premises of third parties using staff primarily employed by the client company.

The financial benefit in 1996/97 of franchising to the 15 or 20 colleges that accounted for the majority of the activity was huge. Although individual college figures have never been published by the FEFC it can be roughly estimated from published figures. FEFC *Council news* 37 stated that the:

> *amount of funding per unit transferred by colleges to their partners has ranged from under £2·49 to over £20·00. The estimated median amount of funding transferred is £6·50.*

The same source goes on to say that 'the Council estimates that 51% of all collaborative provision is within college funding agreements'. This means that 51% of the provision has been funded at a level above £6·50. Given that the projected level of collaborative provision in 1996/97 was 17 million units it means that about 8·67 million units were funded within college core allocations. These units would have been incorporated into their cores, via the bidding process, at an average bid-funding rate of approximately £15·65 per unit. This means that in 1996/97 these colleges received about £15·65 per unit for these 8·67 million units while paying collaborators an average of £6·50 per unit. Using this logic the activity yielded a surplus of just less than £80 million in that year. This means that something in excess of £40 million was handed out to about 15 colleges via this mechanism. They could use this additional funding to cross-subsidise their in-college activity.

The quality of collaborative provision had been questioned by many in the sector and was the subject of a special report published by the FEFC in February 1998. This work was carried out by the FEFC Inspectorate and highlighted a number of significant criticisms of franchised activity. The report's summary begins by stating that 'no inherent weaknesses were found in collaborative provision' but goes on to acknowledge some serious shortcomings with significant aspects of it (FEFC, 1998). These ranged from the strategic level – 'few strategic plans [of colleges] address fully how collaborative work fits with the college mission or how it relates to curriculum planning within the colleges' – to operational deficiencies such as inadequate pre-guidance, on-course support and progression and resource problems in respect of learning environments, learning resources and disabled access. On the positive side it highlighted that:

> *The best franchised provision has widened participation in further education and afforded opportunities to employees to gain national vocational qualifications (NVQs), particularly the long term unemployed and other disadvantaged groups.* FEFC, 1998

The report itself contains very little quantitative analysis. Rather it tries to highlight and disseminate good practice. Unfortunately this approach makes it very difficult to quantify, in terms of the overall provision, the balance between the strengths and weaknesses identified. The most serious weaknesses seem to be the lack of strategic justification: the franchised provision did not fit a college's mission and had inadequate quality controls.

The available evidence presented and analysed so far strongly suggests that the growth of franchising is largely explainable in terms of its financial attractiveness. It could be argued that the FEFC created such a favourable environment that colleges who neglected franchising were not acting in the best interests of their organisation.

The growing excesses of franchising were not being publicly acknowledged by the FEFC but the 1997/98 funding methodology began to reflect concerns about aspects of it. The changes introduced were further influenced by the Government's decision early in 1997 to withdraw its open-ended financial backing for the DLE. Taken together these measures discouraged further growth. However, two significant problems remained to be tackled:

- The small number of colleges whose financial viability was dependent on large-scale franchising
- The inconsistencies in the tariff which made it such a profitable activity.

Convergence debate

Both of these problems were further exacerbated by the FEFC's decision to move to convergence to a single ALF for all colleges and HE institutions by 2000/01.

At first sight this decision appeared to be rooted in equity and common sense. Despite its apparent merit it was not universally welcomed. A representative of the 'principals of low-cost colleges' expressed the frustration of his group in the following terms:

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> *We have suffered four years of low funding, and now we have the prospect of another four years of a convergency strategy that has been proved not to work.*

At the other extreme of the debate, colleges with high ALFs claimed that their particular circumstances justified additional funding and that its withdrawal would damage or destroy the provision available to groups under-represented in further education. The score-keeping accountants sat on the sidelines of this debate and pointed to the difficult financial position of colleges and suggested that convergence could drive a growing number of them into bankruptcy.

These comments and the growing pressure to reopen the debate on convergence could have been dismissed as special pleading if two important assumptions were valid: the tariffs applied accurately reflected the relative costs of delivering different qualification aims; the median ALF for the sector was a fair comparator of efficiency. Unfortunately, as already discussed, the growth, nature and economics of franchising raised serious questions about the validity of both these assumptions.

Whether the ALF is a fair comparator depends critically on whether there is a tendency for colleges with low ALFs to also have a high percentage of their total units earned from franchising. The comparison of the percentage of franchising units with funded ALF for 1997/98 forms Annex 1 of the report (FEFC, 1998). This shows that there were great disparities in the relationship but tends to support the hypothesis that colleges with high percentages of franchising had lower funded ALFs than those with low percentages.

This evidence gives weight to the contention that convergence based on ALFs as presently calculated is flawed because there is potentially an important element of systematic bias favouring colleges who deliver a significant proportion of their units via franchising. This convergence would produce further transfers of FEFC funding from colleges whose mission concentrates on meeting the FE needs of their localities with in-college provision to those who have found salvation by expanding the percentage of their units delivered by franchising.

Against this background the FEFC produced its funding methodology for 1998/99 which revealed two main priorities: the achievement of funding convergence by 2000/01; modification of the tariff to reduce funding to certain curriculum areas and types of delivery.

The extent of the convergence benefit to colleges with substantial percentages of franchised activity was reduced by the FEFC's approach to funding in 1997/98. In that year much of the DLE funded growth was consolidated into core funding but it was done in a way which reduced the cash benefit to colleges with large amounts of DLE funding. As the group of colleges with the highest proportion of DLE funding was largely coterminous with those with significant percentages of franchising the full potential financial benefits of convergence were denied the franchisers. However, as the example below illustrates, these colleges still benefited significantly from the methodology:

- College X currently delivers 500 000 units in college and 300 000 units via franchising. Its ALF for in-college work is £17·20 and it pays its subcontractors an average of £6·50 per unit.
- FEFC funding for college X in 1997/98 was £10·55 million.
- College X's ALF was £13·1875 (£10·55m for 800 000 units).

If the FEFC had decided to fund all units at £16·20 then college X would have had its allocation increased by £2·41 million in 1998/99 (£3·0125 per unit × 800 000). Instead of this approach it decided to introduce a two-tier system under which colleges with an ALF in 1997/98 of less than £16·20 would receive in 1998/99 £16·20 for all in-college units and its 1997/98 ALF for all franchised units. The effect of this approach on college X is illustrated in Table 5.

Table 5. Two-tier system effect on college X

	1998–99	**Funding**	**£1m**
In-college	500 000	at £16·20	8·1
Franchised	300 000	at £13·1875	3·96
Total funding	—	—	12·06

The increase in funding enjoyed by college X is just more than £1·5 million. The ironic consequence is that evidence suggests that most, if not all, of this £1·5 million will be available to cross-subsidise its in-college provision. Using the figures in Table 5, its in-college work could operate at an ALF of £20·20 ([£12·06m – £1·95m paid to subcontractors] ÷ 500 000). This occurs when the declared aim of convergence is to treat all colleges equally. A college undertaking only in-college work at an ALF of £20·20 would have received a substantial cut in funding in 1998/99, since its ALF would have been reduced to £16·20.

The above illustration shows that the FEFC's decision to introduce a two-tier convergence system which distinguishes between in-college and franchised provision reduced the amount of additional funding being awarded to colleges with high levels of franchising. However, it still allowed them to benefit significantly at the expense of colleges with little or no franchised provision. This aspect further underscores the benefit of franchising to college finances. The above example illustrates the positive benefit to colleges with low ALFs and high levels of franchising. However, those with high ALFs and high levels of franchising do even better from the methodology. It needs to be recognised though that the number of colleges in the first category far exceeds those in the second.

The FEFC has tackled with vigour the aspects of its unit tariff system that facilitated franchising. Its tightening pincer has operated by removing certain qualifications from the funding schedule, such as diving, navigation, and reducing the unit credit for other popular franchised programmes. This approach has been fairly successful in reducing the profitability of some franchising provision. However, the response of some colleges has been to consolidate their franchising in areas where the tariff remains generous (basic IT in particular) and look for innovative ways to transform franchised work into an in-college activity usually by seconding staff from the outside organisation involved.

This broad analysis of franchising raises a number of important questions for colleges, the FEFC and the Government. These will now be addressed in the following section.

Important questions raised by franchising

Role of FEFC in developing franchising

The extent to which the FEFC consciously supported and encouraged the growth of franchising is difficult to determine. There is no evidence that the initial funding methodology that was so supportive to franchising was designed with that in mind. The prize for inventing it must go to that small group of principals who saw the opportunity and developed such diverse and innovative ways to exploit the methodology. A more difficult question to answer is why the FEFC moved so slowly and indecisively to curb even the more extreme practices. This failure allowed the 15–20 colleges who account for more than 50% of all franchised activity to make very large surpluses from this work and use it to cross-subsidise their in-college provision.

The FEFC's public stance of franchising has been to be very supportive of it and to stress its positive aspects. This is illustrated in the Council's view of franchising expressed to the Education and Employment Committee of the House of Commons:

> *The Council sees franchising as a mode of delivering further education rather than a separate type of provision and to see the level of funding as an empirical question which should be considered in the context of the review of the tariff which is undertaken annually by an expert group chaired by Sir Roy Harding.*
>
> *Inspection evidence confirms that there are no inherent weaknesses in franchised provision. There is both good and poor practice, as with all provision. This is more clearly differentiated by the management*

and quality assurance arrangements in particular colleges than by the type of franchised provision.

In April 1996 the Council published a circular entitled Franchising, *which gave guidance on arrangements for franchised-out/off-site collaborative provision. In the light of the circular some colleges have begun to develop explicit quality standards for franchised provision as an integral part of their quality assurance arrangements. The best practice includes:*

- *Strategic commitment to franchised provision*
- *Clear lines of communication with collaborative partners*
- *The identification of staff with a responsibility for regular monitoring and reporting on the quality of teaching*
- *Thoroughly documented procedures for quality assurance*
- *The provision of teaching and learning materials that are customised to the needs of the client.*

Given the significance of franchising in the sector and the growing disquiet about aspects of its operation, it was a surprisingly low-key and uncritical statement.

The FEFC statement did go on to refer to the conclusions of the Secretary of State's working group on collaborative partnerships in further education that was established to address concern regarding control issues, additionality and the pace and scale of franchised provision in the sector. The working group produced its interim report in March 1997 (see *Council news* 38). Its main conclusions were that:

- It would be wrong to oppose the principles of franchising
- Franchising increases the risks associated with lack of adequate quality control, particularly where provision is made at some distance from the college
- Similarly there are risks associated with the substitution of public funding, through franchising, for provision which would have occurred without such funding
- Although the main responsibility for employer-led training must continue to be borne by employers themselves there is a case in principle for some degree of public funding
- It would be inappropriate to limit the role of FE colleges to their local areas.

These conclusions indicate a more critical and wary attitude to franchising than the FEFC's statements. However, they still fail to highlight the cost differential and the resultant ability to cross-subsidise in-college provision. This significant omission is being addressed in a cost study which the FEFC has commissioned from KPMG. As mentioned in the introductory chapter, it will compare the costs of funding qualification aims by direct provision and by franchising. At the time of writing this study has not been released but its findings should simply confirm that a significant cost differential does exist (see Chapter 7). A more pertinent question is whether such a study was necessary given that the FEFC carried out a full survey of colleges to establish how much each paid per unit to their franchising partners. This was completed in 1997. Its findings have not been published, neither have the results been used to calculate the extent to which some colleges have been able to cross-subsidise. This seems to suggest that identifying and eliminating surpluses arising from franchising was not a policy objective – a conclusion which appears to have been confirmed by the treatment of franchised units in the convergence measures introduced within the 1998/99 funding methodology.

On the available evidence, measures taken, data published and public statements made, it is difficult to avoid concluding that once franchising began to develop and deliver low-cost growth its reduction or elimination was not an FEFC priority. Understandably, the Tariff Advisory Committee (TAC) required that the impact on colleges of any proposed changes be fully exemplified before they were endorsed. This, together with the length of the funding cycle, ensured that alterations to the tariff occurred slowly, influencing the rate of response to the franchiser's selective use of the tariff. In the period since the removal of the demand-led element the FEFC's changes to the tariff and its advice on out-of-area franchising have made it more difficult for the large-scale franchisers. To some extent these negative pressures have been diluted by the favourable treatment of franchising in the mechanism of convergence and the failure to address strongly either out-of-area franchising or the technical mechanisms used to transform franchised activities into in-college provision.

Impact on sector's financial position

As has already been seen, franchising did provide a large percentage of the sector's growth in student numbers and units. This outcome reflected positively on colleges as far as the previous Government was concerned. It also allowed some colleges to reduce dramatically their ALF per unit by cross-subsidising in-college activity from low-cost franchising. This particularly occurred when colleges were allowed to incorporate franchising into their funded cores. Unfortunately, these selective reductions in ALFs convinced the Government that continued high levels of productivity gains could be achieved. This led to a rapid decline in ALF and £16·20 a unit being set for convergence, a figure considerably below the mean ALF for in-college provision.

The financial health of the sector has suffered badly from the rapid reduction in ALF. Non-franchising colleges have found it very difficult to cut costs fast enough to avoid deficits. This has led to an increasing number of colleges moving into the

FEFC's category C for financial health – a classification that requires a recovery plan to be produced and the direct and regular involvement of the Council. In 1994, the percentage of colleges in categories A, B and C were 70%, 25% and 5% respectively. By 1996, the pattern was 45%, 35% and 20% (FEFC). This represents a very serious deterioration that is largely attributable to the rapid reduction in college ALFs.

This rapid reduction in funding was made worse by the redistributive effect of franchising. The large surpluses available from franchised activities were earned by a very small number of colleges, leaving the remainder receiving proportionately less funding. This trend was continued in the 1998/99 funding methodology which, as already described, again treats franchised activity favourably.

The analysis in this chapter strongly suggests that the vast majority of colleges have suffered financially as a result of franchising. This outcome occurred because it provided the evidence of low cost growth and falling ALFs which the Government needed to justify the rapid reduction in unit funding. The surpluses from franchising activities were distributed among only a small number of colleges.

Impact on quality of provision

The FEFC has concluded that there is no evidence currently available to support the contention that franchised provision is inherently better or worse in quality than that delivered in colleges. This conclusion is hardly surprising since much of the franchised provision was either previously offered at full cost, such as diving, first aid and coaching skills, or was offered to employees by their employers to make them useful and productive staff. The FEFC Inspectorate report (1998) on franchising highlighted a number of significant criticisms of its quality. Unfortunately, it did not quantify the extent of good and poor practice. However, a detailed analysis of the inspection reports of individual colleges indicates that considerable elements of the franchised provision were characterised by relatively poor practice in terms of teaching and learning and facilities.

The criticisms of franchising are not confined to poor teaching and learning. The report also expresses particular concern that the growth occurred in the areas of the curriculum which could be franchised. This produced serious mission drift or opportunism in individual colleges and because of the scale of franchising the same tendency applied to the sector as a whole. Growth in the sector was driven by franchising which, by its nature, was selective. The question of whether these curriculum areas were priorities for further education was never asked.

Who benefits from franchising?

Many private training companies and large national employers have received considerable amounts of public money as a direct result of their franchise relationships with colleges. This has been used to subsidise existing in-company training programmes and increase the profits of some training providers. These benefits are small, when compared with the large surpluses earned by the 20 or so colleges who dominate franchising. The scale of these surpluses is impressive, regardless of whether they have been used to cross-subsidise in-college provision, invested in buildings and equipment or spent on high salaries and expenses for top staff.

To balance this financial perspective supporters of franchising would point out that even if some employers, private trainers and a few colleges have done well out of it, so have the students. This is the cornerstone of the justification. On the face of it, it is difficult to deny. Those wishing to undertake basic first aid courses have been able to do so at a lower cost than would otherwise have been the case. Cleaners have been able to obtain training to NVQ level, again at a lower cost, rather than the company's in-house training scheme that existed prior to franchising, and so on. Some students have received better training, others the same at lower cost and some have received training they would not otherwise have received. The question is not 'were the students disadvantaged?' – there is little evidence that they were – but rather 'was it good value for public money?' The answer to the latter question, in most cases, is it was not.

Providers further claim that franchised activity has had a disproportionately positive impact on widening participation by bringing unqualified individuals into lifelong learning. The available evidence suggests that students involved in franchised provision are less likely to be classified as widening participation students than those in other categories. The reason for this is that most franchised activity involves short courses and the average short course student is better qualified and lives in a less disadvantaged postcode area than the average FEFC student (FEFC, *Franchising: background information*, July 1997). It is true that some franchised activity has significantly contributed to widening participation but in general it has not proportionately contributed.

Future for franchising

Future developments in franchising are difficult to predict because of continuing uncertainties over the FEFC's attitude towards it. At present, negative and positive signals are being given to the sector. On the negative side, some franchised activities have been removed from funding, that available for direct collaborative ventures with business organisations has been reduced, and closer investigation of franchises outside a college's normal geographical and curriculum areas has been promised. These have been moderated to a significant extent by the FEFC's favourable treatment of franchising activities in the convergence proposals, continued strong public support for franchising and the very limited measures taken to stop franchises operating outside a college's normal geographical area. A number of commercial organisations are offering colleges the opportunity to transform franchises into in-college activities.

The impact of these apparently contradictory signals on the level and nature of franchising activity in individual colleges will vary considerably. Essentially, the colleges can be segmented into three groups: large-scale franchisers (about 20); opportunistic and community franchisers (about 280); and 153 non-franchisers. It is unlikely in the new climate that any college not currently a large-scale franchiser will become one. As far as non-franchisers are concerned they could move into the opportunistic category and similarly some in that category could become non-franchisers. These latter movements will largely reflect the ease or difficulty with which individual colleges can meet their FEFC unit target by other means.

The inevitable annual variations in the level of recruitment will ensure that colleges continue to have a significant incentive to move in and out of franchising. While the approach is understandable it results in the most dangerous form of franchising with colleges inexperienced in this activity buying units in the commercial market. This can be a challenging and potentially expensive process given that there is clear evidence of economies of scale in franchising, particularly in respect to contract negotiation and quality control. Last minute ventures into the franchise market are inherently risky in terms of quality control, audit requirements and value for money. These risks need to be set against the financial ones a college faces if it fails to meet its unit target. Given the current rules the financial risk will often outweigh those related to franchising and ensure that many colleges continue to move between the non-franchising and opportunistic categories to meet their unit target.

If this prediction on opportunistic franchising is correct its future level will depend on the relationship between FEFC targets and college recruitment. The strong financial pressures to achieve unit targets will ensure that a large number of potential franchising colleges will exist at any one time. How many of these will actually contract franchised units will depend on their cost and how difficult the FEFC makes it to move in and out of franchising and between collaborative partners. The increasing strength of the FEFC rules, the audit and quality risks and the economies of scale make it likely that this type of franchising will decrease as colleges seek other less risky approaches to the elimination of any projected deficit on their FEFC units.

The above analysis suggests that the vast majority of colleges will reduce their level of franchising during the next few years. This downward trend in opportunistic franchising is not likely to be replicated in community-based franchising. This provision is characterised by its relatively small scale and its local delivery. It is generally used to channel FEFC money to community providers who supplement a college's mission in hard to reach geographical or curriculum areas. This element is unlikely to be affected by the changes in the rules and is generally based on long-term relationships. In total, it accounts for a small part of the overall franchised provision.

If the prediction that the majority of colleges will reduce their franchised provision is correct it will be the 30 colleges who currently account for nearly 70% of the total activity who will determine the future shape and scale of franchising. Their attitude will reflect the negative pressures they face which are summed up in the section that follows.

Negative pressures

Convergence. Convergence has introduced a twin ALF, one for in-college provision and one for franchised provision. Although in the first instance the rate for franchising has been generously set by the FEFC there is the danger that KPMG's current consultancy on the relative costs of these two types of delivery will confirm that franchising costs are considerably less than those for equivalent in-college provision. If this leads the FEFC to reduce substantially the ALF allowed for franchising then the economics of franchising will be transformed and its financial attractiveness diminished.

Tightening the tariff. Measures already taken by the FEFC have removed from funding some of the curriculum areas traditionally favoured for franchising. The tariff reductions that have been applied to in-company activities have also reduced their appeal. The FEFC has promised to continue tightening the tariff to ensure that it properly reflects costs. These processes are likely to reduce further the financial attractiveness of those courses which currently account for a high proportion of franchised activity.

Quality. An increasing number of colleges have found that their franchised activities are reducing their inspection grades in these curriculum areas and for quality and management.

FEFC guidance. The growing emphasis the FEFC has laid on the need to justify provision delivered outside a college's normal geographical and curriculum areas puts pressure on colleges with a large franchised provision. Although relatively little has yet been done to enforce this guidance, other colleges are putting on the pressure to ensure that something is done.

Benefits threatened

Taken together, these four measures are placing increasing pressure on colleges with a large amount of franchised numbers. This threat is acutely felt because these colleges have prospered from franchising. In general they have built up strong financial positions and have been able to cross-subsidise their in-college provision from the large surpluses earned from low cost franchising. Historically, they have also benefited from the relationship between the FEFC's contribution to buildings and a college's ALF. The threats to these benefits are now real and the colleges only have a limited range of responses available to them.

The strength of this threat is illustrated by the growing use of devices which transform franchising into an in-college activity. The scale of this activity is growing as the large franchisers grapple with the problem of unit targets which are considerably in excess of that which they could recruit from their normal geographical catchment areas. This need has produced a range of innovative solutions involving commercial partners. These schemes take as their starting point the requirement to show that the staff delivering the curriculum are, at the time of the delivery, employed by the college claiming the units. Generally, another organisation provides the premises and equipment and often the staff, but these are, by various mechanisms, rebadged as college staff for FEFC purposes.

This development meets the large franchisers' needs to reclassify franchised units as in-college provision. However, its continued success depends on the FEFC taking a benign view. First, the scale of franchising operated by the major 15 franchisers is such that this in-college provision will have to operate in a much larger geographical area than the colleges' own natural catchment areas. Also because it is in-college provision they will have to justify setting up branches of their college in the catchment areas of other institutions. Up until now, the FEFC has not taken a strong line with such developments. However, if its approach changes the rebadging will be seriously threatened. In some cases these arrangements may not stand rigorous audit particularly in respect of contracts of employment and possibly VAT. This strategy also depends on the tariff not being tightened in the few remaining areas of the curriculum where this approach to delivery can yield substantial surpluses.

The other major area of work open to the large franchisers is in-company NVQs. It is possible to develop delivery models for those which are significantly cheaper to operate than the in-college equivalent. The problems with these activities are that their tariff has been significantly reduced and they are more costly to administer particularly when operated on a limited scale. Some large franchisers will still work profitably with national organisations that have large numbers of employees/clients requiring relatively straightforward NVQs such as Customer Care and Information Technology. However, even in these cases they require the FEFC to take a continuing benign view of these national activities and to keep the tariff for this type of franchised provision at its present level.

Conclusions

The outlook for franchised activities is less optimistic than it was. The evidence seems to point to a substantial reduction during the next few years. The rate of decline will depend on how hard the FEFC pushes down elements of the tariff and its attitude to colleges providing significant in-college provision outside their normal geographical area. Given the real uncertainties over these elements of FEFC policy it is difficult to make firm predictions on either the rate of decline in franchising or what will replace it. The only sure conclusion is that the large franchisers are going to have to be very innovative and enterprising if they are to continue to meet their unit targets and produce the financial surpluses on franchised activities on which they have come to rely.

Their activities could also engender considerable conflict between colleges at a time when the Government is looking for cooperation and partnerships rather than competition and strife. The latter would reflect badly on the sector and can only be avoided if the core unit allocations of colleges with considerable amounts of franchising are reduced. This could be done over a period of time without destabilising their financial position. They would merely have to follow the path of cost reduction already followed by many colleges with high ALFs and little franchising. This approach may placate the Government's desire for cooperative action to tackle the participation agenda. However, it may also inhibit the sector's ability to meet its expansion targets. The latter concern probably best explains the FEFC's currently tentative moves to end large-scale out-of-area franchising. Its fear of under-recruitment at a sector level may be more imagined than real, however, since there is a significant and increasing number of other colleges effectively capped on units and thereby discouraged from growing.

4. Community-based collaborative provision

Maggie Gidney

Community-based outward collaborative provision began in much the same way as other franchising. It offered an opportunity for colleges to meet demanding growth targets and in many cases to reduce unit costs. It also enabled community and voluntary sector organisations to maintain or develop provision at a time when other sources of funding, such as European, TEC and local authority sources, were becoming more constrained.

For many, it has been a more acceptable form of outward/off-site collaborative provision (OCP), with claims being made that it supports the Kennedy widening participation agenda, helps to achieve local regeneration strategies and empowers and capacity builds community and voluntary sector organisations. This chapter will consider the role of community-based OCP in widening participation, the lessons to be learned and its impact on the sector.

Overall picture

Many colleges have had long-standing arrangements with community-based organisations. When it became clear that colleges were able to contract with third parties to deliver training programmes, many chose to extend their relationships to include outward collaborative provision. Despite the fairly widespread view that OCP was largely work with employers and private training partners, collaborative arrangements with voluntary sector organisations at 18% outweigh those with private sector employers (13%). (However, it remains the case that the highest levels of OCP are with private sector trainers at 54%.)

The FEFC notes that:

> *In the best examples of collaborative work with community and voluntary sector organisations, collaborative provision helps colleges to attract people who might not otherwise participate in further education and training. They include people from minority ethnic groups and isolated rural populations and the long-term unemployed.* 1998

In many cases these voluntary sector and community organisations can form a key first step in colleges' attempts to fulfil the challenge of the Kennedy agenda. The collaborative arrangements that colleges operate are usually only part of the broader strategic and operational networks that operate between themselves and the organisations.

The Education and Employment Committee identifies an important yardstick to measure the appropriateness of OCP (franchising):

> *We believe that high-quality franchising can play a valuable role in the FE system, because of the way it can increase participation, extend access and contribute towards a more skilled workforce. However in order to achieve this franchising should grow from colleges' primary tasks of introducing students to learning – at many levels – and helping them to progress. The impetus to enter into franchising arrangements should be to further this task, rather than simply maximising income.*
> DfEE, 1998a, para 129

The committee also set clear criteria for quality in locally based OCP:

> *Thus students on franchised provision should be, and recognise themselves as being as much a part of their parent college as those studying at the college itself.* DfEE, 1998a, para 132

As with other forms of OCP, not all community-based collaborative provision is an arrangement between a local college and its community. Community-based OCP was not immune from the pattern of franchising at a distance created by a relatively limited number of colleges. In many cases the college which engages in a franchising agreement with a given community organisation has been dependent on:

- Whether the local college is risk taking or risk averse by nature
- Whether it has funding units to spare

- Its financial stability and its average level of funding
- Its attitude to growth or to partnerships.

It becomes difficult to sustain the view that community-based OCP achieves a first step towards the type of serial participation that lifelong learning implies, if the franchising college is at some distance from the community. If there is no progression link between a community-based student's first experience or return to learning and the main local providers of further education, it is difficult to support the hypothesis that meaningful widening of participation has been achieved.

Without detailed analysis of the type of students and programmes within community-based OCP, there is no way of knowing whether the students are actually from groups or areas of underparticipation. For this reason the case for community-based OCP as a key driver of the Kennedy agenda is not yet proven. College individualised student record (ISR) information on OCP needs to be analysed by level, ethnicity, programme area, age, gender and widening participation factor to evidence OCP's role in the Kennedy agenda. This needs to be done whether the widening participation baselines are developed on the basis of postcodes or on prior educational achievement. The same benchmark information needs to be available for retention, progression and achievement on OCP.

To ensure comprehensive and strategic approaches to local planning, all provision within that area's boundaries needs to be in the public domain. This is not currently the case. Many of the first round FEFC widening participation strategic partnerships have found that it is difficult to develop a meaningful participation plan for the area, when the data on local participation is incomplete. Local colleges, TECs and local authorities may share their data and through analysis identify geographical areas with underparticipating client groups. However, there may also be substantial numbers of widening participation OCP students who do not appear on such participation maps. It is difficult to develop a meaningful understanding of adequacy and sufficiency if part of the picture is missing.

Nevertheless, there is anecdotal evidence to indicate that community-based OCP undertaken within a regional strategy between local FE colleges and other agencies can be beneficial to both parties. The most successful OCP could help to draw voluntary and community organisations into the new local learning partnerships in a structured and meaningful way. Colleges may be well advised to work strategically with a range of other local providers if the new demanding student targets are to be met. Despite these uncertainties, there are lessons to be learned from the first phase of community OCP.

Key lessons

Added value

There are aspects of voluntary and community sector approaches to education and training which complement those of further education. Community organisations may offer programmes which are closely tailored to the specialised community which they serve. For example, they may work with a particular estate, a specific age range or ethnic-minority group. They often base their programmes in locations which are used for multiple activities by their client group and are seen as familiar, welcoming environments. In the challenge to widen participation these organisations can play an important role.

Where local colleges develop collaborative arrangements with such organisations they may gain a number of advantages. Often their own environments may seem more alien and less welcoming, larger and more impersonal to the people these organisations serve, people who potentially could fall within a widening participation group. Such potential students may well feel that they will vanish in the college or that their needs will not be met. In a collaborative arrangement the community organisation could act as a friendly gatekeeper to the wider college programmes.

Through sharing its quality procedures, curriculum and qualification know-how, the college may be able to play a significant role in community empowerment and development. Some colleges have looked at introducing joint staff development, mentoring and capacity building programmes alongside their OCP arrangements. The culture and the systems of the college may be challenged and improved by such activities. This may then assist the college to consider the requirements of more flexible programmes and different client groups. College staff may gain deeper skills and understanding of the communities they serve. It is likely that there will be significant cultural change in both organisations.

The voluntary or community organisations also have something to gain. Such organisations often suffer from short-term initiative funding approaches which make it difficult for them to plan long term. These organisations have often had to drop programmes almost as soon as they are started. They also find it difficult to sustain long-term staffing arrangements where offers of employment are linked to annual or project funding cycles. A strategic and long-term OCP arrangement with a college can offer some financial and programme stability. Although FE colleges have an annual funding round, in many senses their funding agreements are relatively stable compared to project-based funding. If this is reflected in their OCP contracts, even greater stability for the community organisation may be achieved.

The college can provide a range of expertise in accreditation development, delivery of nationally recognised qualifications, sustained staff development in teaching and learning, support strategies, counselling and student services and learning centres. Many colleges have robust financial, information management and quality assurance procedures which can sustain and enhance internal procedures in the OCP partner. They may have greater representation on local strategic forums, better access to and capacity to bid for alternative funding sources and greater flexibility to support the cash flow difficulties brought by some external funding sources such as those relating to European Union (EU) grants.

Potential problems

However, the relationship is not free from problems for both parties. Colleges may limit the benefit they gain from this closer tie with the community. OCP arrangements may be held within a specific department and relationships with community organisations may not permeate and inform the broader college culture, systems and curriculum. The management of the OCP may be held by one or at best a small group of managers and as a result not be seen as a core activity by the staff as a whole. It may be treated differently by everyone, from those involved in the delivery of learning to the finance staff. The FEFC notes:

> *The majority of trainees do not have access to the full range of services including initial guidance, additional learning support, tutorials, careers guidance and counselling, which are available to students on the main sites of a college.* 1998, p9

An important perceived difference is the approach to the provision of additional learning support (ALS) funding units in OCP. Again the FEFC notes:

> *In the majority of partnerships, the needs of students with learning difficulties and disabilities are not taken into account in planning provision, tutors are not trained to recognise or support students with learning difficulties.* 1998, p11

There seems to be confusion about the eligibility and procedures for claiming ALS funding for OCP work. A further disincentive to ensure such funding within OCP is the fact that many see the administration of ALS as overly bureaucratic and would not wish to extend this to OCP.

Although the FEFC report does not differentiate between types of OCP it is likely that these weaknesses apply equally to community-based provision. It should not be assumed that community-based provision focuses on Entry level and Level 1 work, or that there is a higher need for ALS or guidance. However, if widening participation to disadvantaged and underparticipating groups is seen to be part of the role of community-based OCP, the unequal access to guidance and support is likely to be problematic.

The embedding of activities and relationships is important in all OCP. For example, in employer-based OCP valuable opportunities to update skills and to inform curriculum development and delivery may be lost if full partnership with OCP organisations is not encouraged. Similarly, in voluntary and community-based OCP, if expertise in attracting and delivering appropriate programmes to widen participation is not exploited the college may miss a valuable opportunity to play an active and direct role in local regeneration. Also, if such partnerships are not fully developed, it leaves the voluntary sector organisation, yet again, feeling used and undervalued.

Another contentious area may be short-term agreements with OCP partners. Colleges may seek to use OCP as a buffer zone if they are operating on the margins of underachieving or achieving unit targets. This variable approach to funding is likely to have profound effects on the college's relationship with the community. There is a long history of unequal relationships between community organisations and statutory ones such as FE colleges, where the voluntary sector is only approached when convenient. Many feel they never get a seat with any power on the strategic local agencies and groups. To start and then drop OCP arrangements can only cause harm to local relationships and to the community-based student client groups.

Preparing for partnerships

If colleges decide to begin or maintain OCP in community-based provision, they need to consider if there are any conflicts between the proposed partner organisation and the college in terms of culture, ethos and reputation. Information on the track record of the organisation is likely to be available locally since it is likely to have existing contracts with the local authority, TEC or other agencies. Where this is not the case, the college needs to put in place even more rigorous checks. It will need to consider the political implications of allying itself to an organisation, particularly where communities are fragmented and antagonistic.

As with any other OCP, colleges need to ensure that there is a clear rationale for their involvement with the voluntary and community sector. The rationale for specific OCP developments should be borne out by their needs analysis, strategic planning and self-assessment processes and embedded in department operational plans and targets.

The impact on all college systems needs to be considered and adequate resources put in place to plan, monitor and evaluate the work. Unlike large contracts with private training providers or with employers, some OCP contracts with community and voluntary sector organisations may be quite small. As with other projects and programmes, the college would be well advised to undertake a full business planning exercise for its OCP, ensuring that costs, income and payment streams, risks and sensitivities are determined. Community-based OCP does bring specific quality assurance issues that need to be addressed. Many community organisations operate with very limited revenue. Where they are required to meet the FEFC paper trail, their systems may creak under the strain. Colleges need to be aware of this and customise existing documentation and procedures to accommodate the specific challenges set by this provision while maintaining a clear and robust audit trail.

Community and voluntary sector organisations may experience cash flow problems which need careful monitoring by the college, to ensure, wherever possible, that the college is not adding to the difficulties. The college also needs to ensure that the contracted programmes are delivered to the agreed standard despite any financial constraints within the OCP organisation. For colleges this may present additional difficulties compared to other OCP. These OCP agreements may be very small scale yet will require the same levels of monitoring and perhaps a disproportionate level of management time. The college may wish to set minimum contract sizes to address this problem.

Perhaps more than other organisations, voluntary sector organisations are used to having to manage multiple small income sources to sustain programmes. Colleges need to be vigilant that they are not offering double funding for a programme; for example by funding a project which is already in receipt of funds from a local authority. Voluntary sector organisations may also be in the vanguard of the transition between Non-schedule 2 and Schedule 2 work. Colleges should carry out adequate checks and balances to ensure that the programmes are eligible for FEFC funding.

Colleges will need to make a judgement between the value of friendly and accessible accommodation and accommodation which does not meet the college's standard for direct provision. At the very least it needs to meet health and safety requirements. Colleges will also need to consider the cultural fit between staffing approaches in the OCP partner and the college. Use of volunteers, different contractual arrangements, levels of professional development and pay scales may all be a cause of concern for college staff. They may see community-based OCP as a cheap option and may infer that it is of a lesser quality or a lower challenge to themselves or their profession. If the provision is to be an integral part of the college response to the community in the way the Select Committee suggests, it must be seen as equal to other provision by staff and students alike. This may need proactive approaches by managers within the college to ensure that the OCP is widely understood.

Future of community-based collaborative provision

With the change in the demand-led element of funding and the effective unit cap imposed until 1999/2000, growth has ceased to be as attractive for some colleges. As a result, they may have retrenched to core, fully-funded activities. For a college with a low ALF, where OCP units are not converged to a higher ALF, there may be additional corporate pressure to shift OCP funding units to direct delivery.

However, there is some indication that where community-based OCP has been developed as part of a broader strategic approach to working with the community and voluntary sector, colleges are seeking ways to sustain this area of work. Colleges are likely to be considering a range of options including recrafting community OCP programmes to bring them more directly under college control. This is not without problems. Colleges need to ensure that any new arrangements are not just a device for achieving additional funding. They should be within the spirit and letter of the FEFC funding methodology and the guidance on OCP. A move to more direct control may become unacceptable to the OCP partner since it may fundamentally undermine its autonomy in the longer term.

There is also evidence of colleges withdrawing from community-based OCP and seeking to translate units into growth of their core programmes. This may undermine their relationship with the local community and prove to be short-sighted with the demanding challenge to widen participation to a further 700 000 students just over the horizon.

The move towards making local provision the priority is also having an effect. Some colleges operating OCP at a distance are seeking to return community-based OCP to local colleges. It is not clear whether or not they are equally keen to return units and associated funding. However, receiving colleges may only be able to take over local OCP if they have difficulty in meeting unit targets or gain additional units and funding to sustain the work. Many colleges involved in large-scale OCP have had to develop robust monitoring and quality assurance arrangements, sophisticated management and support procedures and expertise in working with community and voluntary organisations, which the local college may not have.

The new targets for sector growth will once again set challenges to the FEFC and the FE colleges to deliver the widening participation agenda. As part of its response to this challenge, the sector will be concerned to ensure that growth capitalises on the strengths and capacity of community and voluntary sector organisations, but will be wary of another OCP boom. Community-based partners may also be wary of renewing relationships if they see this as a boom and bust cycle that they have experienced all too frequently in the past. However, to overlook this form of OCP will make the demanding growth targets more difficult to achieve. The standards agenda will also need to be addressed in community-based OCP as in other provision. Participation, retention, achievement and progression are likely to be at issue in this form of delivery as within provision in main site programmes. OCP will need to be benchmarked against national and local baselines, with targets for improvement set.

Such provision will also need to be drawn into new initiatives such as the University for Industry, with community-based learning centres being seen as an important local resource for computer and communications mediated delivery. Revenue streams will need to be available to sustain the centres' operation. Community-based OCP may be an appropriate mechanism to supply the gateway and support services the centres will need.

Community-based OCP has clearly had an impact on the sector. At its best it has enhanced and strengthened local networks, has widened participation and access and developed expertise and knowledge in the college and with the OCP partner. Nevertheless its contribution to widening participation seems yet to be proven, although its importance to the Kennedy agenda remains a widely held belief. This type of OCP seems likely to endure at least in the short term, despite some retrenchment. A more strategic approach to regional planning and delivery would seem to imply that there is a logic to consolidating funding streams so that a small organisation does not have to deal with TECs, colleges and local authorities to sustain a small number of programmes and services. Whether colleges and OCP arrangements become the most appropriate model for funding education and training in the voluntary and community sector seems open to question.

5. Franchising and core provision

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Preliminary evidence and context

The FEFC has defined franchising as 'education for students being delivered away from a college's premises by or with the assistance of a third party' (1996, p3). In contrast, core work is what a college does with its own staff (typically, but not exclusively, on its own premises). Franchising has been a high-profile issue for the FE sector, raising important questions about mission and purpose, as well as impinging on the efficacy of the funding methodology. This investigation looks at the relationship between franchising and the core of the college's work.

As has been seen in previous chapters, there are several financial incentives for colleges to undertake franchising. Colleges:

- Can grow through franchising and can raise extra revenues as surpluses; this arises where colleges have a cost advantage relative to the tariff and so can expand pockets of provision
- May franchise so as to maintain their profile and reputation *vis-à-vis* other colleges (Leney *et al.*, 1998); the demand-led element (DLE) allowed colleges to expand, with the FEFC underwriting such expansion, albeit at a lower rate of funding
- With low average levels of funding (ALFs) receive higher percentage allocations under the bidding process and a higher percentage FEFC contribution to their building projects; these colleges are best placed to expand their franchising (Styles, 1997b).

External agencies also have an incentive to obtain franchising agreements, in terms of the income they could receive from the FEFC, the educative input they would receive from the colleges to improve the standards of provision and the accreditation they would receive for the participants. (This definition of franchising differs from common usage: typically, franchisees pay to use the name and operational technique of the franchiser.)

Given these incentives, and the widespread presumption that franchised provision is well funded under the FEFC tariff, this chapter hypothesises that colleges have obtained and pursued franchised provision in order to subsidise their core provision. To test this hypothesis it is important to be clear about the quality and resources for franchising. If franchising is comparable to core provision then there need be no concern over its prevalence. If colleges cannot make a profit on franchising then there is no opportunity to cross-subsidise the core. However, as will be discussed later, the core needs to be defined and in a way which is not contentious. The different definitions that abound reflect a fragmented view of the mission and purpose of the FE sector.

On quality, the FEFC cites inspection evidence of:

> *no inherent weaknesses in franchising as a mechanism for the delivery of vocational education and training ... [or with quality assurance, if] senior management commitment, resources and monitoring arrangements are in place.* 1997b, p8

On resources, the FEFC, against an underlying perception that franchising is lucrative, does recognise that considerable effort is needed for quality assurance, particularly when the franchising is off site.

On the core, Kennedy notes that a:

> *lack of vision informing clear strategic priorities has led to the danger of a fragmented sector, split between [inter alia]: franchising versus direct provision colleges.* FEFC, 1997c, Annex A, p5

The circular also observes that:

> *the funding methodology could be amended to encourage collaboration rather than competition between institutions. This could be a more effective strategy for reaching those who do not at present participate in further education.* p8

National data and information from visits and data collection at eight case study colleges is used to test the chapter's hypothesis and explore questions of quality. This then leads into considerations of:

- What use colleges have made of opportunities and revenues from franchising
- Whether or not franchised provision should be funded, and if so, how.

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There are large amounts of data at the national level and these are useful for exploring trends. However, in order to understand and analyse the effects of the funding formula, the views of college professionals were also sought along with documentary evidence from the case studies.

Findings from aggregate data

The national data is a useful starting point to establish the growth of the sector and the extent of increases in the diversity of funding. Table 6 indicates the scale of collaborative provision. With a total of 700 000 students (the majority of them part time), collaborative provision (CP) represents 10% of all provision (as registered in terms of funding units [FUs]).

Table 6. Growth in collaborative provision

Source: FEFC, 1997d

	CP (millions)	CP/total students	CP FUs (millions)	CP FUs/ total FUs
1994/95	0·1	5%	3	2%
1995/96	0·5	18%	12	7%
1996/97	0·7	19%	17	10%

Between 1994/95 and 1996/97 franchise enrolments rose sevenfold; more than 280 colleges are involved in franchising although 20 of the largest franchisers provide 58% of the total franchised provision (FEFC, 1997a). Franchise enrolments are clustered by subject: notably in health and community care, IT, computing and sports. Most franchised provision is at Entry or Level 1 and may be with private or public sector employers, with schools, sports bodies or community associations (FEFC, 1996, p6).

The national data suggests two points. First, franchised provision is different from the rest of FE provision in terms of student body, curriculum and level. The significance of this difference needs to be investigated. Second, franchising has created a cluster of around 20 college providers which, in terms of national statistics, are unlike the remainder of the sector; this dissimilarity may undermine notions of a common FE sector being well served by a common sector-wide funding methodology. However, as Gravatt (1997) notes, detailed aggregate information on franchised provision is difficult to uncover. Given the scale and growth of such provision and concerns about its nature, distribution and scale, the limited volume of publicly reported national data is a matter of concern and perpetuates suspicion about quality.

Findings from college data

Using data on provision from individual colleges is informative. Out of the eight case study colleges, two undertake no off-site franchised provision, five are small-scale franchisers and one is involved in large-scale franchise provision. This reasonably mirrors activity in the sector as a whole. The analysis of this data and other relevant information suggests that the franchise market may be segmented into three groups: large-scale franchisers, opportunistic franchisers and strategic (non-) franchisers. These practices are described in more detail below. The quality of franchise provision and the effects of franchising in fragmenting the sector will then be considered. -

Colleges' franchise activity

The colleges that did not franchise confirmed that franchising was contrary to the mission of their institution. They argued that their strategic direction militated against franchising, both in terms of students ('our target group is not amenable to franchised provision') and staff ('if the college had wanted to franchise we would have selected our staff complement differently'). However, as evidenced from the other case studies, these arguments do not preclude small-scale franchising. Instead, it may have been that these non-franchisers were able more easily to forgo the additional income from franchising through a confluence of positive circumstances:

- Changes to the local demography with increasing enrolment from a greater catchment
- A relative windfall fund when the DLE ended
- Changes in the productivity through new conditions of service for staff.

For the small-scale franchisers in our sample, mission was important and it guides the type of franchising done. Perhaps in consequence of this, the motives for franchising in each case were idiosyncratic. At the case study college in Wales, the emphasis was on supporting local provision. Despite competition between colleges in previous years, this was a view held by the neighbouring colleges. The college had only one franchise contract with the local education authority (LEA) for adult non-vocational work. The volume was modest, representing around 5% of total college income.

At one of the general FE colleges in the study, early franchising had been lucrative but it was soon realised that high-quality franchising required a resource commitment as great as that given to on-site provision. As a result, the college has developed a high-quality work-based learning programme which, being off site, might be thought to be similar to franchising except that the college's own staff worked with the employees. It is therefore defined as core provision. At a second college, despite frequent opportunities for negotiated franchise deals and a broad subject complement, only a very small proportion of franchised provision was undertaken (around one-fiftieth of the total provision). This college preferred the growth to be internal. However, it is also clear that senior management had not anticipated that franchising would last. The third general FE college regarded franchising as part of a local imperative for widening participation and exporting its educational standards to external agencies.

Some colleges were opportunistic in their adoption of franchising on a small scale. One college had franchised in order to increase its total units and so reduce its ALF. One sixth-form college was franchising a small amount of provision with a national provider of first aid. This provision, which appeared relatively lucrative, would be used to 'buttress the mission'. This college's imperative to franchise depended on the potential for growth through other sources. With growing enrolments and more healthy 16–19 provision than for some years in terms of enrolment and student in-take characteristics, the college acknowledged that, in terms of the funding method, this was 'growth in the wrong area'. However, franchising was a low-risk opportunity to increase resources to the college at the margin.

The motives of large-scale franchisers are more problematical. It may be possible for such colleges to argue that they have always had partnerships in the community and that franchising is just a change of name and funding arrangement, as was argued by the large-scale provider interviewed for this study. For others, franchising is seen as a legitimate substitute for 'traditional employer day-release courses that were the backbone to much of "old" further education' (Leney *et al.*, 1998, p27).

However, this argument cannot be invoked for the nature of much of the rapid growth in franchising that has happened during the past few years. More legitimate may be the argument that such colleges are creating access for groups under-represented, with franchised provision being a valid part of the FE remit despite its atypical profile.

The large-scale franchiser in the case studies had encountered significant management problems because of alterations to its applications for funding. In negotiations with the FEFC, the college has criticised the failure of the FEFC to understand and accommodate its mission and the abrupt withdrawal of DLE funding. The college has cancelled provision and had to consider either merger, rationalisation of its provision into the local area or conversion of franchised provision into directly-funded work.

Ensuring quality

One main reason why some colleges reject franchising is because of concerns about quality. The belief that franchised provision is lower quality than on-site provision is widespread and concerns have not been allayed by evidence from the FEFC. One sixth-form college was pulling out of its community work because of 'concerns about quality'. Even the large-scale franchiser acknowledged that it has had to abandon some franchising because it found that the provider had 'no genuine interest in the students'.

Most of the opinions regarding franchising overall were pejorative, even from the large-scale provider. Little reference was made to the fact that such provision might be the most suitable for NVQ provision, a large element of which involves on-site assessment (Gravatt, 1997, p10). This omission is partly because the composition of much franchised work is at a low level. The NVQ argument is also not easy to maintain if, at the same time, the college is aiming to improve participation to non-traditional groups since employees receiving training are not likely to be among the most excluded groups.

Another argument about quality was that those who teach franchised programmes often instigate curriculum development, yet they do not provide the franchise college with frequent updates of this activity. As a result, continuous improvement in the curriculum is hidden from college management. Similarly, good quality provision is also likely to arise from knowledge of the students and few colleges could give information about students on franchised programmes other than that from administrative records. Little is known, for example, about whether or not the colleges are satisfying the aspirations of these students. It may also be difficult to get learning support to students who are geographically distant from the college or have little affiliation to it.

As has been seen in previous chapters, for a time, growth – much of which was in franchised provision – was funded at the DLE price of £6·50. This figure was substantially lower than the average level of funding at which colleges were expected to provide. This led some professionals to conclude that franchised provision must be receiving lower resource than core provision. However, this argument cannot be pushed too far: franchisees may have been contributing some of their own resource (such as the instruction site) to the training or education. The demand-led element of funding may have been the amount of subsidy by the FEFC; this is not the same as the total resource input. Hence the quality of the franchised provision may be comparable to that of the core.

To ameliorate concerns over quality, some colleges developed rules about the types of franchising they would undertake. These include franchising only to local providers, only on a small-scale and only for courses which fit common conceptions of further education. Elsewhere, franchising was undertaken by staff who, at the least, were trained by the college.

However, such rules could be used to dress up franchising, making it appear less opportunistic and more strategic. Given the incentives for external agencies to seek FEFC funding for their courses, there is, as one principal put it, 'a ready market for units'. This ready market may help colleges that are below their funding units target for a given year to reach such targets. However, this type of provision may be less likely to cohere with the college mission. At present, there is no obvious way of distinguishing these top-up franchisers from more mission-focused franchise arrangements.

The argument that franchised provision is inferior to other provision is difficult to sustain across the board (DfEE, 1998a). It is not a shared view and the large-scale providers feel justified in defending their provision on its own terms.

Several arguments were advanced in defence of franchised provision. Employers may coerce greater commitment to learning from their participating employees. For social or community groups and for those on sports courses, the desire to learn may be greater. One college professional also argued that franchising has spin-off benefits, such as better links with employers and so closer job placement links. However, there was little general support for this argument, even among those more involved in franchising. Progression might be improved through franchising, but given the typical provision that is franchised this is doubtful. One college acknowledged that some franchisee institutions were averse to such progression, preferring to keep the students as part of their own client group. Elsewhere, geographically distant provision made progression through the original college unlikely.

Some of the case study colleges expected franchising to be a short-lived cash cow and regret not having seized the opportunity more. These colleges could then have softened staff cuts resulting from general financial pressures over the medium term.

The problem may be more a case of whether or not the colleges and the FEFC can actually measure quality in franchised settings, rather than being about quality *per se* (Wymer, 1996). This has been one of the constraints on the growth of franchising at particular colleges: college staff do not have the competencies to assess quality in a franchised activity. For the FEFC, inspection of the franchised provision may also be difficult. One principal did concede that quality control of franchised provision was 'notional' at the early stages of franchising; colleges were not able to control quality.

The evidence from the case studies also reveals a number of context-related issues that may affect quality:

- Franchising is 'terribly volatile', a finding noted not only by large-scale franchisers. Both the number of franchisees with which the college must deal and the units that it could accrue were volatile. For one department at a college, the number of units had halved between one academic year and the next; at another, franchisees were often changing, with the resultant income fluctuating from 2% to 8% of the total. Although growth of franchising has been curtailed in terms of units available, one principal was certain and many others were confident that growth could still be significant.
- Benefits from franchising have failed to materialise. The extent to which small-scale franchising is lucrative is moot: there are significant economies of scale in franchising (not least because of the high initial contracting costs) and two colleges thought that provision below 50 000 units was not likely to be profitable. The college that had developed a large-scale programme of work-based learning argued that quality franchising required a resource commitment that was as great as that given to on-site provision. (This was a college that had already been commended in its FEFC inspection report for its extensive and varied links with employers and its established and carefully managed work experience programmes.) At other colleges, those professionals who had directly managed franchising had argued that it was 'not cheap'. For one department head, franchising with another college across a range of subjects was not lucrative; very little of the surplus accrued to his department.
- The opportunity to deploy funds as fixed capital or circulating capital depends on whether or not the increase in funding is temporary or permanent. It may not be possible to deploy such funding in a way that does not bring a string of liabilities in the longer term.

In summary, there is anecdotal evidence that franchising may be used for cross-subsidy by some of the large-scale providers to an extent which may not be insignificant. Nevertheless, for many colleges, the amount of franchised provision is marginal and the profit earned on such provision is also likely to be small.

Given the small scale of franchising undertaken at many colleges, it was unlikely that sufficiently substantive cross subsidy could occur. For these small-scale franchisers, which make up more than 80% of the sector, franchising cannot subsidise core provision to any significant degree. Not only is the provision marginal, there are significant constraints on its growth. Their involvement with franchising may be explained by, or more cynically dressed up as, mission and the perceived virtues of using franchising to ease the financial squeeze on colleges without deflecting from the core business.

There is therefore a lack of evidence that colleges have pursued franchised provision to subsidise their core provision. It has also been possible to identify several constraints on franchising and some adverse contextual factors.

Franchising and fragmentation

So far, it has been assumed that the notion of a core of provision is not contentious. However, this is not the case. It is not easy to maintain a definition of core provision. This is primarily because one effect of franchising has been to fragment the sector: no common, sector mission exists against which a core and periphery can be counterpoised.

The sector has been divided into those colleges that franchise and those that do not. The position of the 20 or so colleges that undertake large-scale franchising is evidently different from the rest of the sector. This is per-college fragmentation. Franchising has also indicated a schism in the perceptions of the FEFC and those of the colleges about the mission of the FE sector.

Franchising, with its particular weighting towards Level 1 provision, may accentuate the differences between sixth-form colleges and other FE providers, with the former continuing their core purpose as to deliver A-levels. Because franchising is a partly optional activity which is led from the top, the stance taken by senior management may have implications for college ethos. Many colleges orientate their provision to serving the local community; either large-scale franchise provision or top-up franchise provision may be discordant with that mission.

One of the concerns over franchising is the lack of control over staff involved in franchising and their separation from the college. One curriculum manager acknowledged that the 'college did not [even] like using agency staff'. Some lecturing staff regarded franchising as 'expedient' or 'opportunistic' (this is a view we found at colleges in Wales). Franchising activities may be recasting the college staff as course validators. When pressed directly on this, college staff said that this would 'negate the role of the college'. For franchising to be worthwhile the college would have to 'add value'; this exact phrase was used by two of the principals who engaged in small-scale franchising. Fragmentation has occurred between staff and college management.

The competitive advantage claimed for franchising does not seem to have been a significant factor. One college did consider that its motivation for franchising was lessened by the behaviour and the relative expertise of other colleges in the area. For the sixth-form colleges, which are minimally involved in franchise provision, competition is against each other and against schools. For colleges interested in strengthening their position against schools, franchising is unlikely to have attractions beyond being a source of revenue. Given that the growth of franchising has bypassed GCE A-level provision, the income that it generates is unlikely to reduce the inequity in funding compared to schools, one of the clearest complaints from principals (Graham, 1997, p556). Franchising seems unlikely, on this evidence, to figure in a college's competitive strategy.

Franchising may have exacerbated other resource tensions. As one of the principals observed, franchisers are more likely to approach some types of college than others – sixth-form colleges, with the greatest similarity to schools, were thought less likely to be approached. Hence franchising represents another source of income which, like other marginal sources of income (European Social Fund, widening participation funds), varies according to college type. In comparison with these other income streams, franchising may also have been a more ready source of funding. Bourn (1997, p2) finds that 'colleges have not succeeded in increasing their levels of funds from private sources': enrolment between 1994/95 and 1995/96 fell by 9% for students funded by other agencies.

What some colleges now regard as the missed opportunity of franchising also reflects on how colleges have interpreted not just their own missions but also the position of the FEFC. This results from diverse interpretations of the FEFC's policy drivers. Some principals were not certain why the FEFC would wish to support franchising; without FEFC guidance, some colleges were uncertain about how to grow and what would happen if they did not grow. Indirectly, the Education and Employment Committee recognises this issue in asserting that further education:

> *has now reached the stage where the Government now has to make choices and explain its priorities. The key point is that criteria for the allocation of public money to further education should be made clear.*
> DfEE, 1998c, p*ix*

From the evidence of college professionals, there was disagreement over whether the FEFC encouraged franchising or not. Others thought that the FEFC was ambivalent about what should be bought with FEFC money (FEFC, 1996, p3), beyond making clear its willingness to pay for elements of provision. However, this view was not generally shared. One professional argued that the FEFC should have a role in encouraging people to do the qualifications that the Government thinks they should take.

However, precisely what the FEFC should buy is a more contentious issue. Even classifying FE provision into three broad types – academic, vocational and community work – there was no ready presumption about which was most legitimate or what should be proscribed. Given the entrepreneurial and responsive face of further education ('operating at the interstices of economic change', as one principal put it), it seems unlikely that there could be such a consensus.

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It is difficult to present the sector as responsive while also defining beforehand what the sector should or should not provide. Although there was no ready consensus over what should be done, there was more clarity about the undesirability of funding 'dead weight'. The general feeling was that there had been some subsidy in the provision to business, perhaps for training they would have undertaken anyway. Such franchising took money away from the core mission of colleges, resulting in even greater divergence of funding against other providers.

Conclusions

Franchising has risks, financially and educationally, and these risks are likely to check the growth of such provision for some colleges. Franchising, even for the small-scale providers, is volatile both in terms of scale and in terms of quality. Franchising has revealed, if not a 'lack of vision informing clear strategic priorities' (FEFC, 1997c, Annex A, p5) by colleges, at least a divergence in views about what should legitimately be funded as further education. Concomitant with this, franchising has further fragmented the sector. This has happened because the opportunities for franchising were not spread evenly in the first instance and because franchising has been cumulative, with large-scale franchisers growing larger. Franchising is used as a vehicle for increasing participation or improving access; small-scale franchisers welcomed this opportunity. Yet this form of franchising is not particularly favoured in the funding method: funding for a franchise is independent of the amount of effort secured in obtaining it. To some extent, this will bias franchising towards top-up purchasers and away from colleges overtly seeking to franchise in such a way as to provide a first step of access to education for marginal groups.

There is also concern over a funding method that stimulates short-term opportunities to obtain extra funding. Colleges are pressured into franchising by competition. There are not only legitimate concerns about how to ensure good quality of provision but also uncertainties over the extent to which such activity will be funded. In Wales, where franchising has been much less pervasive, the cap on funding has made direct the link between greater money for franchising and less money for mainstream or core provision.

During the more expansive franchising period of 1995/97, where the revenues from franchising were as uncertain as the costs, franchising may have had a destabilising effect. The funding method may in future have to change dependent on how the colleges behave. If a large number of colleges franchise, the funding method will have to accommodate this new scenario and will do so in a way that may disadvantage the colleges that do not franchise. One principal was explicit that the college policy on franchising had largely been decided by second-guessing the FEFC's response.

Franchised provision must be subject to the same quality requirements as on-site provision. The FEFC Chief Inspector's report for 1995/96 observes that franchising is likely to run into difficulties either when: undertaken hastily; atypical of the core provision of a college; the franchise work is at a distance from the college; the provision is large-scale (1997b). At present, all of these options remain open. In Wales, there has been persuasion against franchising and colleges are only allowed to charge a 10% mark-up on any franchised provision. The returns from franchising are therefore lower in Wales.

Beyond this, any other responses may be more debatable, as they will reflect judgements about the relative merits of different programmes. Cuts in funding to franchised provision or capping the amount of franchising (as proposed to the Education and Employment Committee [DfEE, 1998c, p*xl*]) may be difficult to enforce since colleges can often circumvent the rules. This will actually reduce the less profitable forms of franchising, despite the concerns being mainly over the most profitable forms (Styles, 1998, p2). Other options, which face the same criticisms, include only funding franchising: after a lag when it conforms to the college's own cohort; when it is within the local region; at a diminishing rate per size of franchise. Another option, narrowing the curriculum (also suggested to the Education and Employment Committee [DfEE, 1998c, p*xlii*]), would have the benefit of clarifying what the FEFC regards as publicly fundable, as well as restricting some forms of franchising.

Much of the sector appreciates and welcomes the opening up of new markets in further education; these are a reflection of the creativity and dynamism within the sector. New forms of provision should not be automatically regarded as problems for the sector to solve. Yet, as the experiences with franchising indicate, detailed prior investigation is needed as to how such market needs are to be met. Otherwise, the responses of colleges to changes in student needs, funding formulae and regional circumstances will repeatedly surprise the sector.

6. The selling of FE Lite

How we spent a bundle of cash without increasing opportunities at all

Adrian Perry

Introduction

In early 1997, the FEFC was conducting what was laughably called a 'fundamental review' of the unit-based funding system it had adopted in 1993/94. There was little enthusiasm for this review for several reasons. One was that it was obviously a put-up job: no change was likely to be made to the funding system that so entranced principals and policy makers. We were important people because we understood the system and others didn't. Another was more mundane. Those working in further education had come to see that the quantum of money coming into the sector – something that was beyond their control – mattered at least as much as the way it was channelled to institutions. This was, let's remember, the midst of the crisis caused by the withdrawal of the demand-led element (DLE). But there was also a feeling that, despite the pain, the sector had created something admirable – a system that rewarded growth, and efficiency, and quality. It was even said that schools and TECs should transfer to this system, that New Deal should be funded this way. Like people following the truth of a weird sect leader, colleges not only believed unquestioningly in the rightness of their cause: they even argued that others should join. I found this bizarre at the time. There was little evidence that the funding system had improved results or raised overall growth, and I argued so in a paper for a FEDA seminar.

My paper had no effect on the shape of the funding system. It confirmed my desire to establish a support organisation – The Cassandra Trust? – to counsel those who give unheeded warnings. But the paper also entered the debate on franchising, which was then raging. On the one side were colleges who were outraged that public funds were being plundered to little apparent benefit. On the other were those who had invested heavily in franchising, who argued that they were bringing education and training to new groups (not just commercially astute but also morally sound).

It's an emotive debate, and it may pay to start with some ground clearing. First of all, few colleges did anything against the rules as set out to them. These allowed – in fact encouraged – you to enrol students through third parties and at some distance. Franchising provided a way for colleges to avoid cuts, expand staff, not worry about missing targets, please governors and pose as thrusting entrepreneurs. It also reduced the apparent unit cost (average level of funding or ALF) at a time when that was all that mattered in further education. The fact that some colleges went into excess was inevitable. The FEFC cannot take a high moral tone. It was warned what was happening, and ignored the warnings. It really will not do to criticise the greed of children left alone in the sweet shop. Indeed, the easy growth bought in by the mega-franchisers allowed the FEFC to hit their student targets at a time when that was important. To take an example, almost the whole of the growth in part-time numbers between 1994/95 and 1995/96 was caused by franchising. The complicity was helpful.

Second, the franchise debate seems to me to ask important questions, not just about the scope of further education (what can we do to repair the fissure that has grown between us and the employed population: how can we get into the market for training those at work) but more profoundly what do we mean by a public service? What should people expect to be paid by Government, and what by employer, and what by themselves? It is a debate to which we have returned in the context of individual learning accounts.

Lastly, and like many principals, I wonder whether my hostility is because I should have climbed aboard the franchise gravy train much earlier.

The problem with franchising

There are six major problems with franchise work as presently constituted:

- It diverted funds and attention from mainstream work
- It sprang up undiscussed and unplanned
- The funds it used could have been better used elsewhere

- We paid for training that would have been going on anyway, or was not meant to be funded as further education
- It distorts comparisons of growth and costs
- It works against local and regional planning for educational capacity.

Diversion

I don't think anyone can deny that mainstream further education paid for the expansion of franchising. Funds were sucked into colleges that declared low ALF and high growth achieved through franchising. In a system where growth funding was allocated by reference to unit cost and past growth record (rather than social need or catchment size), the effect was to deny funds to colleges who would have been able to grow their mainstream work at standard rates. The growth in student numbers was so great that the target level of funding for convergence – an average established in the early days of incorporation to ensure colleges were funded equitably – fell from 'within 10% of £18·50' to £16·20. Given that a full-time student would attract, say, 130 units in a year, this cut resources by £300. In a 750 000-unit college like Lambeth (not atypical) it was the cause of a £1·7m budget loss – money that was massaged to private trainers and profitable companies.

The diversion has been not just of funds but also managerial and curriculum development attention – the analogy is with UK industry's bad habit of expanding by takeovers rather than by internal growth. 'If one firm defects from industrial strategy and grows by acquisition, then all firms are trapped by the rules of the game.' (Hutton W. *The state we're in*. London: Vintage; 1996.) The inspection reports on Halton College and Bilston College showed it was easy for colleges keen on outward/off-site collaborative provision (OCP) to neglect the need to provide a quality experience to their local users. For Cricklade College, OCP appeared to be just about the only decent work in the college. Other colleges found it easier to buy in growth elsewhere than meet local need.

Undiscussed and unplanned

Even if the Treasury hadn't cut up rough, there were reasons to oppose franchising. The Treasury is not a careless organisation: the funds that we had were brought in to the sector in 1993/94 to be spent on our students. No one asked us – or, it appears, the Government – about taking it from the majority of colleges to be passed on as 'bunce' for the few. There has been much self-satisfied talk from the FEFC of consultative styles: but would we have assented, if consulted, to our money being top sliced for a few colleges to go massively into the private market? The exercise can only be justified in terms of increasing the FE market share – in which case it should have been nationally coordinated. But it wasn't. What happened was that most colleges in the sector were obliged to share the pain of the cuts that followed the withdrawal of the demand-led element (DLE), the driving down of the target ALF from £18·50 to £16·20, while having very obviously had no part in the earlier gain. In passing, how bizarre that a massively over-audited sector let this dragon, unsupervised, out of its lair, where local education authority (LEA) 'sloppiness' had prevented it for years? It stands proud, alongside BCCI, Robert Maxwell and Nick Leeson, in the auditors' hall of fame.

Opportunity costs

Even if we had the money and could get franchising past the Government, one has to ask whether it was such a good idea at a time of substantial cuts. The correct way to judge this is not to ask 'was it useful' but 'was it more useful than the other things the money could have bought?' It has been calculated that colleges will spend £200m in 1998/9 on franchising. Julian Gravatt points out that this sum could:

- Give all lecturers a 5% backdated pay-rise
- Provide maintenance grants for half of further education's adult students
- Add an hour of teaching to every course in the country
- Increase Access Funding ten-fold.

More crudely, the money could have opened 10 new colleges, or given £400 000 to all existing ones.

There was a spurious justification from the argument that the DLE funds that supported franchising expansion were additional to the main FE budget, but this holds no water. Remember, the system enabled colleges to consolidate all their units achieved one year into their main allocation in the following year. What was extra money in year one gave access to core money in year two, money that could only come from the more restrained mass of colleges. From my end, I had to close a dyslexia project in Brixton so that the sector could maintain subsidies to some of Britain's most profitable private businesses.

Replacement and additionality

The National Audit Office investigation that was finally called told us what we already knew – that 'there is no robust mechanism for verifying that funding is only provided for training that is additional to existing provision'. I am not talking about fraud (although it appears that this has happened), but about pre-existing work that is now funded from the FE sector's budget. Much of this work plainly was diversionary – the St John Ambulance Brigade and sub-aqua clubs existed and trained before further education became their godfathers.

Other programmes in private and community trainers were formerly TEC financed, and our willingness to take them onto our budget has moderated the effect of cuts there. This is delightfully quixotic, but impoverishes our own work and subverts Government public expenditure planning. There is also an avalanche of anecdotal information that further education is paying for leisure classes: I tired of being told by amused friends that, after their weekend sports or first aid or painting course, they have become officially students of this or that college miles away. In the context of capped growth these arrangements simply displace provision: the national quantum of training actually falls.

The argument about franchise to employers is more complex. For many years FE colleges subsidised employer training in the form of apprentice day-release – indeed, in many parts of the country, this was their origin. However, the view that franchising has enabled us to bring training to large successful industrial companies seems to the outsider weak. Take the subsidies to Tesco and Boots entered into by FE colleges: is it really possible to gain Investors in People (IiP) status, or overtake Sainsbury's, without adequate staff development? This is not to decry work with employers – but perhaps we should return to the idea that they should pay for this work at full cost. Franchising has worked to prevent the FEFC achieving one of its Government targets: to diversify the funding of the sector. At one level, why should a college pursue commercial income when FEFC stood ready to fund apparently limitless expansion from the budgets of those stick-in-the-mud colleges who chose to stay working for local people? On the other, what firm will pay full cost when a generous subsidy is available down the road? A leading Midlands college reports that the income of its commercial unit has fallen by two-thirds since incorporation because of contracts being taken away by colleges offering franchise deals. Another Merseyside college tells the poignant tale of losing a commercial contract with News International to Halton College's franchise machine. Rupert Murdoch used to pay the FE sector for training; now we pay him. Perhaps Wapping has a disadvantaged postcode.

Comparisons of growth and costs

Franchising has also distorted comparisons of growth and costs. Because it just happened (and some jumped on before the others twigged) a small number of colleges benefited mightily. This completely subverted subsequent judgements about expansion and costs – how much easier to reduce ALF by supporting sports-club training than (to take a painful local example) losing 200 staff and seven sites. This mattered crucially – college budgets were allocated according to growth and apparent unit cost, and almost nothing else. The advice was taken far too late: 'The simplest way to secure a low ALF is through franchising; there is a strong case for disentangling non-franchised and franchised provision before using the ALF for funding allocations or other statistics'. By the time the FEFC, under

Government pressure, had erected procedural bars on the window, the burglar was inside the house with the Yale on his key-ring. How is this trick achieved?

Compare for a moment various colleges' position in the 1993 league table of costs per student (Circular 93/09) with their 1996 position in cost per unit. Let's take Knowsley College – a low ALF college that does hardly any franchise work and has never missed its target – as our stable gold standard. One high-franchising London college was 69% more costly than Knowsley in 1992/93, but 11% cheaper just three years later. The profits that were made on franchising – typically buying in work at £6·00–9·00 that was being billed to the FEFC at £15·00–17·00 – meant that the normal work of the college was actually much more expensive than the competition, not less !

The distortion applied at the planning end. It was very difficult to make regional assessments of adequacy and sufficiency of training if students were being registered across the country. The FEFC must have found it difficult to identify colleges in local decline if they were able to hide the fact that they were buying in (as happened in one case) up to one-third of their workload from Islamic groups off site. And the ease with which units could be bought allowed Government and FEFC to funk the fact that the growth targets established for further education could only be achieved by a well-funded and sustained programme of educational expansion.

What was the FEFC's attitude?

FEFC's response was clouded. On the one hand, they issued ever more restrictive circulars on collaboration. On the other, they told us that they were an FE funding council, not a colleges funding council – along the lines that local government is now an agency, not a provider. We are asked why our current students should be considered more deserving than those getting franchise. It seems that there are now two brands of further education – FE Classic, in colleges, and FE Lite, out in private trainers and employers. This ignores the points made above, and the importance of stable suppliers and organic community links to genuine skill development. Finally, and, one suspects, after heavy DfEE and Treasury arm-twisting, they stepped in to make regulations that restricted the practice. Franchising was useful, it transpired, but only in support of local community development or in support of specialist industrial training. The rest had to go.

It was just in time. If franchise had been allowed to go on, it would have destroyed further education as we knew it. There is hardly a college in the country that wouldn't make very large surpluses by closing its main programme and buying in collaborative work from firms and private trainers. We would all be obliged to enter the game: anyone not doing so would appear slow growing and high ALF, and thus would be crushed by the allocation criteria. The average level of funding would fall each year, as we all tried to run to stay in the same place. There would be a forced mission change for community-based further education. But it wouldn't end there: with every college a mini-TEC. Any intelligent Government would cut out the middle man, rather than let colleges take the profits: why fund a college at £15 a unit for it to be farmed out to the real provider at £9? The FE sector – where I qualified, and my daughters and friends, created by earnest Victorian mechanics and philanthropic industrialists, nurtured by local and national pride – would have disappeared.

7. Update

A summary of the changes introduced in 1999

Mick Fletcher

The development of franchising in the mid 1990s led to a great deal of interest from both the FE sector and those concerned with its regulation. The subject of a National Survey by the FEFC Inspectorate, franchising was also under scrutiny from the Education and Employment Select Committee, the National Audit Office and the Public Accounts Committee. By the end of 1998, when this report was commissioned, the FEFC itself had issued information and guidance related to franchising in some 32 different circulars and 16 separate issues of *Council news*.

However, there was more to come. The various national enquiries and perhaps the investigations into college mismanagement at Halton and Bilston suggested that further and firmer regulation of college franchising was needed. Accordingly in 1999 the FEFC consulted on and then implemented more extended guidance and regulations. The guidance was intended to finally put a stop to those aspects of franchising that alarmed its critics but retain the valuable elements that many have identified. Only time will tell whether it has been successful. Earlier chapters in this book have outlined the debate about franchising – its strengths and weaknesses. The aim of this concluding chapter is briefly to summarise the controls introduced.

By the middle of 1999 the FEFC had produced seven further circulars relevant to the franchising debate; two were wholly devoted to the topic. The first, Circular 99/06, set out proposals for consultation. The second, Circular 99/37, confirmed decisions taken in the light of feedback. The sector largely supported the proposals. In addition to outlining current policy Circular 99/37 included a revised model contract for colleges to use and, usefully for researchers, a full summary of all FEFC documents relating to the topic.

The introduction to Circular 99/06, *Franchising, fees and related matters*, finally clarifies terminology. The term to be used when colleges deliver further education through external partners is franchising. For a time the term outward collaborative provision had been used in preference. From 1998 however, collaboration became a much more important policy objective, and began to be applied to partnerships delivering services that went beyond further education. As a result, the term franchising returned to favour. The key feature is that franchising is one mode of delivering further education distinguished from direct provision where the staff involved work under the direct management of the college.

An important element in the tighter regulation of franchising has been the clearer definition of the difference between direct and franchised provision. In part the FEFC was concerned to underline the status quo, but it also had an eye on possible strategies imaginative institutions might deploy for circumventing the regulations. The main difference between franchised and direct provision relates to who has direct managerial control of the staff. Who employs the staff is an insufficient test because of the increasing volume of direct provision delivered by colleges using agency staff. The regulations are also carefully worded to ensure that secondment cannot be used as a device to escape restrictions on franchising.

Armed with a clear definition of franchising the FEFC sets out in the circulars a series of explicit restrictions on colleges. The restrictions principally relate to funding, out of area provision and quality control.

Funding arrangements

The changes in funding arrangements respond to the concerns raised in earlier chapters by Brian Styles and Adrian Perry; that franchising grew because it was overpriced in the tariff. Supporting evidence is in the form of a cost study carried out for the FEFC by KPMG which showed that on average franchised provision cost around 37% less to deliver than direct provision. The study was reported in *Council news* 50. From 1999/2000 the funding units associated with franchised provision are, with limited exceptions, to be multiplied by a discounting factor of 0·67. The aim is to make franchising a less lucrative proposition and minimise the potential distorting effect on resource allocation.

The exceptions are designed to cover those cases where franchising genuinely serves to widen participation and where it is provided by community-based, normally non-profit bodies. Community-based provision will not normally cover employed students or provision which is work related.

The potential problems associated with employer-based franchising are addressed in other ways. One recurring concern has been the need to avoid 'dead weight': public funding simply paying for training which employers would have provided anyway. The recent circulars emphasise the distinction between employer-led activity and dedicated employer provision. Dedicated employment provision, which covers programmes designed specifically to meet the needs of individual employers, attracts a lower level of support from public funds. Delivered through franchising it is therefore subject to a double discount and the relevant funding units are multiplied by 0·45.

The final funding issue addressed in Circular 99/37 is the concern that some colleges have not charged fees to students attending franchised provision and have used this practice to undercut other colleges. If unchecked this could undermine the intention of the Secretary of State for Education and Employment to increase the contribution from employers to the cost of further education. The settlement for 1999/2000 assumes that colleges will raise an extra £35 million from employers and that this will increase to an extra £60 million in 2000/2001. The approach adopted by the FEFC for 1999/2000 has been to make a clear recommendation to colleges as to what fees to charge. Recommended fees are set out in the circular, based on the long-standing assumption that tuition fees cover approximately 25% of the costs of a programme. There are clear hints, however, that if this recommendation fails there could be regulation in respect of fees.

Out of area provision

The second major area of new regulation concerns the provision of franchised programmes outside a college's local area. Many colleges had complained that they were facing wasteful competition from other colleges in their local communities and in many cases were simply unaware of which colleges were making provision in an area. Franchising forms only part of a developing policy that seeks to direct colleges towards meeting the needs of their local catchment area. Draft guidance on the local priorities policy is set out in full in a separate consultation circular, *Local priorities* (99/39).

The specific impact on franchising is that colleges should not enter new contracts for franchising outside their local area and should not plan for increased numbers outside their local area from existing franchises. Colleges should only plan to meet needs outside their area when it is clear that needs inside that area have been met. Local learning partnerships will review provision in an area and determine what provision is needed.

While the principle is clear there may be some residual difficulties with the implementation of this policy. A number of the large-scale franchisers have developed close links with national organisations which may not want to establish separate contracts with several institutions. Also a number of colleges have developed national specialisms. It would be uneconomical to replicate these on a large-scale. There may be further evolution of this policy.

The new regulatory arrangements bring a welcome transparency to FE provision. A common complaint of college principals was that they did not know who was offering courses in their area. Colleges are now expected to consult with local learning partnerships, and the FEFC has published information on who provides what and where. This principle of transparency is underlined by the requirement of franchising partners to disclose all current and past contracting arrangements with the FE sector. The FEFC publishes a list of franchise partner organisations that have links with more than one college. The list is available on the FEFC's website at www.fefc.ac.uk

Quality control

The final set of changes to the regulation relates to management and quality assurance. Since franchise arrangements can pose difficult issues for management and the maintenance of quality, the FEFC has decided that no new franchising activity can be started by a college that has received an inspection grade four or five for governance, management or quality assurance. A grade four or five means that the observed weaknesses in that area outweighed the strengths of provision. The restriction on new activity also covers replacements for existing franchises.

The basic requirement for franchising to be lawful – that the college is fully in control of the arrangements – is unchanged from that set out three years earlier (see Circular 96/06). The FEFC notes however, that while in some cases a college might have had the formal arrangements in place its management of the relationship was not sufficiently formal in practice. It therefore sets out in detail the responsibility of governors to receive regular reports, and to have in place a sound system of internal audit and control.

The outcome of the extensive enquiries into franchising at a national level has resulted in it being heavily constrained but not prescribed. Franchising is, as Jan Dominey argues in her paper, a valid mode of delivery with particular strengths in meeting certain types of need. In particular community-based franchising is seen as having a useful continuing role. However, the tighter regulation also accepts that the operation of the tariff in the mid 1990s, enhanced by the convergence agenda and the pressure for growth, introduced a serious distortion in the planning of FE provision. To that extent the arguments of Brian Styles and Adrian Perry are well made and the refocusing of the FE mission appropriate.

There are also wider lessons about the advantages and limitations of the competitive market-driven approach applied in further education. The Learning and Skills Council proposed in the White Paper *Learning to succeed* should take careful note of the franchising episode when working out the difficult balance between responsibility and responsiveness for the new sector.

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Acronyms

AoC Association of Colleges
ALF average level of funding
ALS additional learning support
CLAIT Computer Literacy and Information Technology
CP collaborative provision
DfEE Department for Education and Employment
DLE demand-led element
ELS Education Lecturing Services
EU European Union
FEFC Further Education Funding Council
FTE full-time equivalent
FU funding unit
IiP Investors in People
ISR individualised student record
LEA local education authority
NHS National Health Service
NTET National Target for Education and Training
NVQ national vocational qualification
OCP outward/off-site collaborative provision
PAC Public Accounts Committee
PFI Private Finance Initiative
SITO Security Industry Training Organisation
SME small and medium-sized enterprise
TAC Tariff Advisory Committee
TEC training and enterprise council
UfI University for Industry

The sudden and substantial growth of franchised courses in further education was one of the most dramatic and controversial outcomes of the deregulation of the FE sector in the mid 1990s. Franchising had some spectacular consequences. It directly contributed to the financial collapse of some institutions. It also pioneered an approach to widening access and building links with the community, which have become valuable features of college provision.

This collection of papers takes a dispassionate look at what we can learn from the franchising experience. There are lessons for all those in the learning and skills community: colleges, training providers and community groups. There are also wider lessons about the potential effect of introducing a free market model into the provision of public services. All those who are interested in transforming the nature of our public services need to reflect on what is good and what is not so good about franchising.

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